PEMBINA PIPELINE INCOME FUND

Report to Unitholders

20 07

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Forward-Looking Information and Statements

The information presented in this Report to Unitholders ("Report") contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward looking statements and information can be identified by the terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "intends", "targets", "believes", "estimates", "continue", "designed", "objective", "maintain", "schedule" and similar expressions. In particular, this Report contains forward-looking statements with respect to: future stability and sustainability of cash distributions to Unitholders; ongoing expansions of and additions to our asset base including the Horizon Pipeline; future growth and growth potential in Pembina's conventional pipelines, oil sands infrastructure and midstream operations; potential revenue enhancement; continued high levels of oil and gas activity and increased oil and gas production in proximity to our pipelines and other assets (which could be affected by, among other things, possible changes to applicable royalty and tax regimes); additional throughput potential on additional connections; expected project start-up and construction dates; future distributions, payout ratios and taxation of distributions; the completion of future debt and equity financings; future capital expenditure requirements; the future development of the Nipisi Pipeline project and the expansion of midstream services.

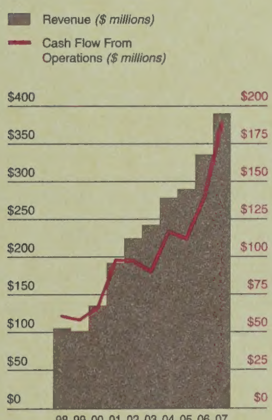
These statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment, tax laws and treatment, fluctuations in operating results and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements and information are expressly qualified by the above statements. The Fund does not undertake any obligation to update publicly or revise forward-looking statements or information contained herein, except as required by applicable laws.

Pembina Pipeline Income Fund **Record of Results**

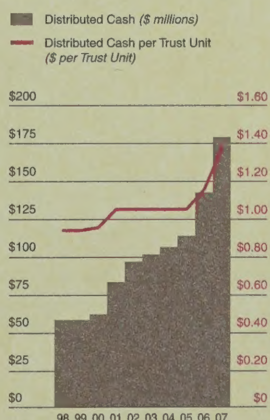
2007 Results

32%	25%	$525
INCREASE IN CASH FLOW FROM OPERATIONS	INCREASE IN DISTRIBUTED CASH	MILLION INCREASE IN ENTERPRISE VALUE

Revenue and Cash Flow from Operations

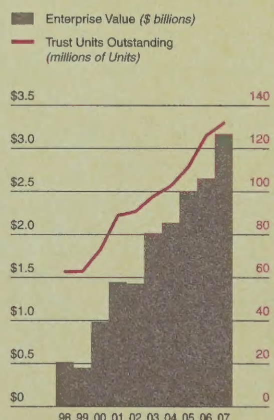


Distributed Cash[1]



(1) *Refer to "Non-GAAP Measures" on page 14.*

Enterprise Value[1] and Trust Units Outstanding



(1) *Refer to "Non-GAAP Measures" on page 14.*

Pembina Pipeline Income Fund 2007 Highlights

	2007	2006
Revenues *(millions)*	**$ 389.7**	$ 335.8
Distributed cash [1] *(millions)*	**$ 178.9**	$ 142.3
Distributable cash [1] *(millions)*	**$ 188.9**	$ 148.2
Distributed cash per Trust Unit [1]	**$ 1.37**	$ 1.165
Trust Units outstanding *(weighted average in millions)*	**130.5**	122.1
Average daily trading volume *(units per day)*	**213,310**	257,893
Total enterprise value [1] *(at December 31)*	**$ 3,179.2**	$ 2,655.1
Total debt to total enterprise value	**26.25%**	23.74%
Throughput volumes *(thousands of barrels per day)* [2]		
Alberta	**422.7**	425.8
BC [3]	**24.4**	22.7
Total Conventional Pipelines	**447.1**	448.5
Oil Sands Infrastructure	**525.0**	389.0
Total	**972.1**	837.5

[1] *Refer to "Non-GAAP Measures" on page 14.*

[2] *Actual throughput reported for conventional pipelines, and contracted capacity for oil sands.*

[3] *Western system throughputs only. BC volume transported east is included in Alberta pipelines total.*

CREDIT AGENCY RATINGS [1]

Pembina Pipeline Income Fund	
DBRS stability rating	STA-2 (low)
S&P stability rating	SR-2
Pembina Pipeline Corporation	
DBRS senior secured debt rating	BBB high
DBRS senior unsecured debt rating	BBB
S&P's credit profile rating	BBB
S&P's senior secured debt rating	BBB plus
S&P's senior unsecured debt rating	BBB

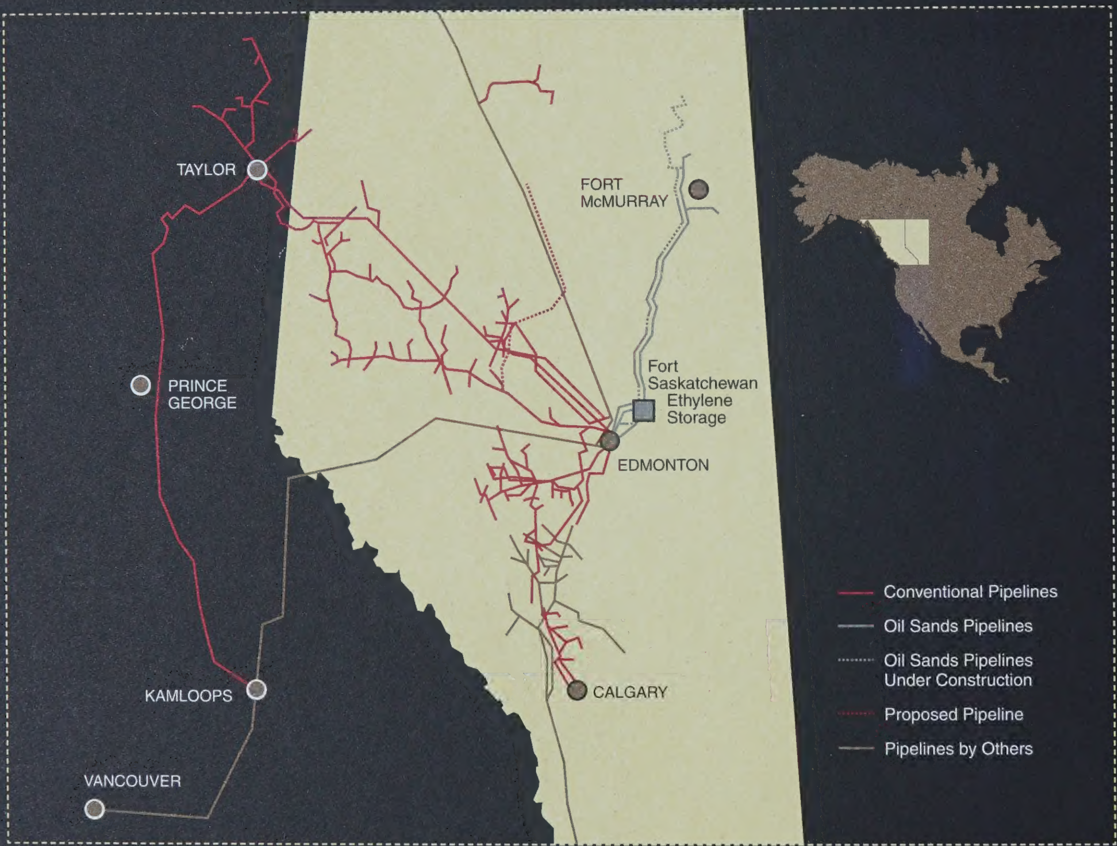
[1] *As at March 5, 2008. These ratings are not recommendations to purchase, hold or sell the securities in as much as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgement, circumstances so warrant.*

Pembina Pipeline Income Fund **Corporate Profile**

Pembina Pipeline Income Fund, following ten years of expansion, diversification and development, is among the predominant issuers within the Canadian energy infrastructure income trust sector. Pembina's extensive network of liquids feeder pipelines, oil sands infrastructure and midstream business provide an integral service to the Western Canadian energy industry. With an enterprise value of $3.2 billion and 132 million Trust Units outstanding, Pembina offers a stable, liquid investment. Pembina's strong foundation of premium assets generate the consistent and sustainable monthly distributions to Unitholders that has become the hallmark of the Fund. The Pembina Pipeline Income Fund, an unincorporated open-ended trust, pays monthly cash distributions to Unitholders.

Pembina's publicly-traded securities trade on the Toronto Stock Exchange under the symbols: PIF.UN – Trust Units; PIF.DB.B – convertible debentures. Pembina's corporate head office is located in Calgary, Alberta.

Pembina Pipeline Income Fund **At A Glance**



Pembina has extended its conventional pipeline service area, developed a significant oil sands infrastructure presence, and has built on the quality and location of its assets to provide terminalling, storage and hub services to customers via the emerging midstream segment.

Fellow Unitholders

We exited 2007 a much larger and more diversified publicly traded Income Fund than the entity launched in October 1997. We are proud to have delivered to our Unitholders a decade of stable and growing distributions. Since the initial public offering of the Fund at $10.00 per Trust Unit more than ten years ago, Pembina has distributed a total of $1.0 billion representing $10.79 per Trust Unit. During the same period, we dramatically expanded both the geographic reach of our pipeline systems and the services we offer to our customers.

Pembina delivered another year of record results in 2007, as revenues increased by 16 percent to \$389.7 million, and distributed cash grew more than 25 percent to \$178.9 million. As noted in last year's Report, we increased our monthly distribution rate to \$0.11 per Trust Unit, or \$1.32 annualized, in January 2007; which was followed by a second increase to \$0.12 per Trust Unit per month in August 2007, or \$1.44 annualized. These results reflect the combined success of our three operating segments, all three of which performed well during the year.

Pembina's solid record of accomplishment is supported by our strategically located legacy assets, prudent expansions and additions to our operating portfolio, new services developed by our experienced, innovative employees, and by our strong relationships with our many stakeholders.

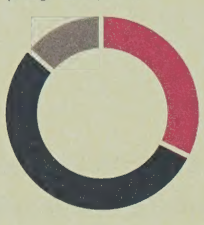
In 1997, we offered potential Unitholders the opportunity to participate in our vision – a vision of taking Pembina's four-decade performance as an efficient, reliable feeder pipeline network to a new stage – to allow us to create incremental value for investors and customers. We committed to economically prudent growth, responsible integrity management of our assets, and superior service to our customers. Pembina has delivered on these commitments.

The current map of our operations presented in this report bears little resemblance to the map in our original offering document. Nor does it fully depict the depth of services we now offer within Canada's strategic energy infrastructure sector. We have greatly extended our conventional pipeline service area; we have become a significant oil sands infrastructure service provider; and we have built on the quality and location of our pipeline assets to provide terminalling, storage and hub services to customers via our emerging midstream segment.

We have more than doubled our pipeline network from the 3,600 kilometres the Fund acquired in 1997 to over 8,000 kilometres today. In 2007, the conventional systems transported approximately 450,000 barrels per day of crude oil and natural gas liquids to transportation hubs in Alberta and British Columbia. This represents approximately half of western Canada's crude oil production. We have carefully built upon the quality of our legacy assets via expansions and accretive acquisitions which have expanded our capabilities. In all cases, we commit the required capital to regularly upgrade and to apply Pembina's rigorous maintenance and integrity management programs to ensure safe, continuous operation. During 2006, we initiated construction of product segregation facilities on the Drayton Valley system to allow us to maintain stream quality and associated product pricing for our customers; in 2007 we initiated similar services on the Peace system. In short, as we grow, we work hard to maintain our position as the pipeline transmission network of choice for our shippers, our Unitholders, our neighbours and our employees.

Our expansion into oil sands infrastructure is also apparent on the map. We have built upon our experience operating the Syncrude Pipeline (formerly the Alberta Oil Sands Pipeline or AOSPL), which provides dedicated service to the world's largest crude oil producer from oil sands. We constructed the Cheecham Lateral which was placed into service in February 2007 and, worked throughout the year to construct two of the three phases of the Horizon Pipeline described in last year's Report. Upon completion of phase three, which we expect to occur in mid- 2008, the Horizon Pipeline and Syncrude Pipeline will have the combined capacity to transport 640,000 barrels of synthetic crude oil per day. These accomplishments were beyond our horizon when we launched the Fund in 1997, and provide a window to what many see as Canada's energy future. In 2007, we began work on a proposed pipeline to connect heavy oil production in the Nipisi Lake and Seal areas in Alberta. If approved, we expect to use a combination of existing infrastructure and new facilities to provide reliable diluent delivery and takeaway capacity to the region. This growth opportunity could add up to 100,000 barrels per day of committed capacity to Pembina's Oil Sands Infrastructure business unit.

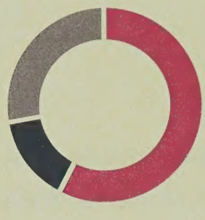
2007 Throughput Composition
(average barrels per day)



●	316,542	Conventional
●	525,000	Oil Sands[(1)]
●	130,577	Natural Gas Liquids
	972,119	**Total**

(1) *Contracted capacity.*

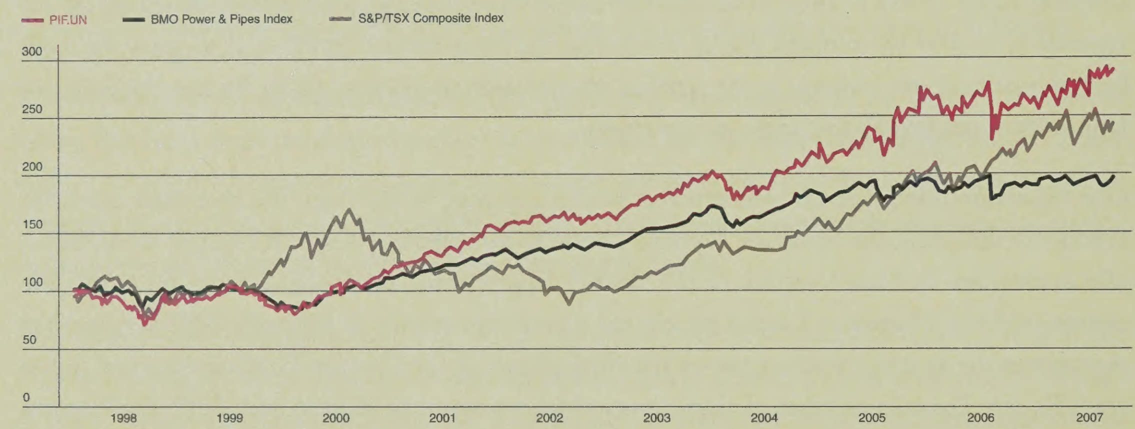
2007 Net Operating Income[(1)]
($ millions)



●	151.8	Conventional
●	38.0	Oil Sands
●	70.3	Midstream
	260.1	**Total**

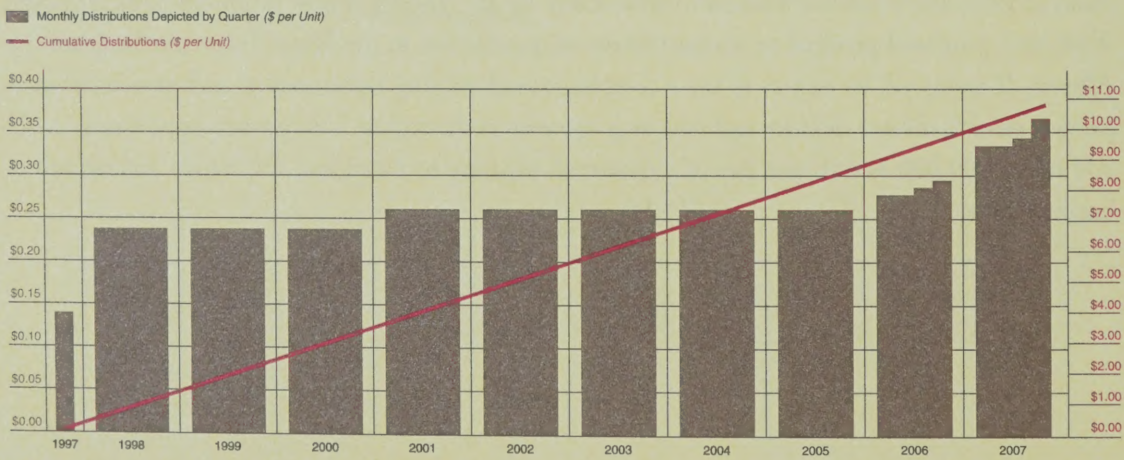
(1) *Refer to "Non-GAAP Measures" on page 14.*

Comparative Total Returns
(Index Value)



Data provided by BMO Nesbitt Burns Income Trust Research, indexed to 100 at October, 1997.

Historic Distributions



Our 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility acquired in mid-2003 represented our entry into the midstream segment. More recently, Pembina's midstream business unit employs the collective intellectual capital of our dedicated midstream staff towards unlocking the incremental value imbedded in our core conventional pipelines. We now offer midstream services, including wholly owned terminalling, storage and hub services, on Pembina's Swan Hills, Cremona and Drayton Valley systems. We have plans to expand the scope and range of these services in coming years. We expect that this vertical integration of new services with existing, strategically located assets will add value for Unitholders and customers alike.

Pembina's team of 350 dedicated employees apply creativity and experience to support Pembina's objectives. In today's market, that means a focus on cost control, on maintaining relationships with communities, partners, suppliers and customers, and on developing new ways to add value for Unitholders, positioning us for continued growth serving Canada's dynamic energy industry, and the communities within which we operate.

Pembina has evolved over the past decade to meet the needs of our customers and deliver upon the commitments made when we launched the Fund in 1997. We expect this evolution to continue to unfold in coming years. We believe that we have the intellectual and technical talent, access to capital, and a surplus of opportunities to propel us through the next decade. In response to the federal government legislated change to the tax treatment of income trusts in 2011, Management is evaluating various structures that could allow us to continue to capture and deliver value for our owners. The strength of Pembina's assets combined with our experienced, innovative employees give us confidence that the success of our first ten years will continue.

Pembina has elected, with this edition, to change the format of our Report to Unitholders. We fulfill our regulatory obligation to produce and file our financial statements and to provide a thorough Management's Discussion and Analysis, as appear in this Report. Changing technologies and growing Internet use by Unitholders and other stakeholders render much of the traditional Report content formerly presented redundant. Consequently, in addition to what follows, we direct interested stakeholders to **www.pembina.com**, where they will find timely information such as news releases and regulatory filings, a thorough review of our operations and business segments, and a wealth of photographic and other information.

We would like to acknowledge the Board of Directors for their valued support over the past ten years. Each member brings a wealth of knowledge and experience to the Board which continues to guide Pembina's growth strategy.

We would also like to take this opportunity to thank David Kitchen for his significant contribution to Pembina's Board of Directors. Mr. Kitchen who is retiring, served as a director or trustee since inception of the Fund. We thank him for his dedication and advice and will miss his leadership.

We would once again like to thank our Unitholders for their support over the past decade. We have developed a reliable, well-established and sustainable franchise in Canada's energy infrastructure industry, and hold significant competitive advantages through the location and capacity of our long-life assets, the quality and depth of our employees, and the scope, scale and vision of our business strategy. We see new challenges and opportunities going forward and, as always, continue to seek out and identify new and innovative ways to conduct our business to better serve our customers, work with our stakeholders, and preserve our long-standing track record of unwavering delivery on our commitments.

Lorne B. Gordon
Chairman
Pembina Pipeline Corporation

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

March 5, 2008

Pembina Pipeline Income Fund Management's Discussion and Analysis

MD&A 07

The following discussion and analysis of the financial results of Pembina Pipeline Income Fund ("Pembina" or the "Fund") dated March 5, 2008 is supplementary to, and should be read in conjunction with, the Audited Consolidated Financial Statements for the years ended December 31, 2007 and 2006.

This MD&A has been reviewed by both the Audit Committee and the Board of Directors. All amounts are stated in Canadian dollars unless otherwise specified.

2007 Highlights and Selected Information (1) (2)

Years ended December 31 (in millions of dollars, except per Trust Unit amounts and where noted)	**2007**	2006	2005
Revenue (3)	**$ 389.7**	$ 335.8	$ 290.5
Operating expenses	**129.6**	120.6	102.7
Net operating income (2)	**260.1**	215.2	187.8
Interest on long-term debt	**29.5**	24.9	23.9
Interest on convertible debentures	**4.8**	7.7	16.6
Net earnings before taxes	**119.8**	64.6	42.8
Net earnings	**142.3**	88.9	70.4
Net earnings per Trust Unit – basic	**1.09**	0.73	0.65
Net earnings per Trust Unit – diluted	**1.06**	0.73	0.65
EBITDA (2)	**220.5**	184.2	169.5
Cash flow from operations	**189.5**	143.9	112.4
Distributable cash (2)	**188.9**	148.2	123.4
Distributed cash (2)	**178.9**	142.3	113.5
Distributed cash per Trust Unit (2)	**1.37**	1.165	1.05
Trust Units outstanding *(weighted average, thousands of Units)*	**130,513**	122,094	108,108
Trust Units outstanding *(end of year, thousands of Units)*	**132,542**	126,218	113,897
Total enterprise value (2)	**3,179.2**	2,655.1	2,500.2
Capital expenditures	**300.3**	168.9	79.5
Total assets	**1,966.8**	1,676.2	1,559.1
Total long-term financial liabilities	**976.3**	752.6	763.8

(1) *Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.*

(2) *Refer to "Non-GAAP Measures" on page 14.*

(3) *Net of product purchases of $115.1 million in 2007; $5.1 million in 2006; $nil in 2005.*

Forward-looking Information and Statements

The information presented in this Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward looking statements and information can be identified by the terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "intends", "targets", "believes", "estimates", "continue", "designed", "objective", "maintain", "schedule" and similar expressions. In particular, this MD&A contains forward-looking statements with respect to: future stability and sustainability of cash distributions to Unitholders; ongoing expansions of and additions to our asset base including the Horizon Pipeline; future growth and growth potential in Pembina's conventional pipelines, oil sands infrastructure and midstream operations; potential revenue enhancement; continued high levels of oil and gas activity and increased oil and gas production in proximity to our pipelines and other assets (which could be affected by, among other things, possible changes to applicable royalty and tax regimes); additional throughput potential on additional connections; expected project start-up and construction dates; future distributions, payout ratios and taxation of distributions; the completion of future debt and equity financings; future capital expenditure requirements; the future development of the Nipisi Pipeline project and the expansion of midstream services.

These statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment, tax laws and treatment, fluctuations in operating results and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements and information are expressly qualified by the above statements. The Fund does not undertake any obligation to update publicly or revise forward-looking statements or information contained herein, except as required by applicable laws.

Non-GAAP Measures

The financial statements of the Fund are presented in Canadian dollars and in compliance with Canadian generally accepted accounting principles ("GAAP"). Throughout this MD&A the Fund and Pembina use the following terms that are not defined by GAAP:

Distributable cash

The amount of cash that is available for distribution before retaining a portion as reserve to absorb the impact of material one-time events and to reduce bank indebtedness. Not all available cash is distributed to Unitholders.

Distributed cash

The amount of cash that has been paid or declared for distribution to the Unitholders. Distributed cash is calculated pursuant to the terms of the Declaration of Trust.

Distributed cash per Trust Unit

Calculated on a weighted average basis using basic and diluted units outstanding during the year.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

Net income plus depreciation and amortization, financing charges and income taxes.

Enterprise value

Calculation based on the market values of Trust Units and Debentures at December 31, 2007 plus senior debt.

Net operating income

Revenues less operating expenses. Management believes that in addition to net earnings, the above noted items are useful measures. They provide an indication of the results generated by the Fund's business activities prior to consideration of how the activities were financed or how the results are taxed. Investors should be cautioned however that distributable cash, distributed cash, EBITDA, enterprise value and net operating income should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of the Fund's performance. Furthermore, these measures may not be comparable to similar measures presented by other issuers.

Materiality

For the purposes of the MD&A and the financial statements and for the purposes of general disclosure to the investment community, Pembina considers an item or event to be material if the omission or misstatement of an item of information or event, or an aggregate of such items or events, would influence or change a decision to buy, sell or hold the Fund's securities. In order to determine what information would be considered as material, Pembina's review includes, but is not limited to, determination as to the effect on income and operating costs, future impact to operations and overall returns to Pembina. Outside legal counsel is also consulted with respect to the required disclosure applicable to certain matters.

Overview

Vision, Strategy and Growth

Pembina's principal objective is to provide a stable stream of distributions to Unitholders that is sustainable over the long-term while pursuing opportunities for enhancement through accretive growth. Pembina believes the most prudent manner to achieve this objective is to maintain and to develop assets around Pembina's hydrocarbon-liquids services business within western Canada. Pembina plans to further develop this business through the continuous improvement and ongoing expansion of Pembina's asset base and the acquisition of quality energy infrastructure assets. To Pembina, "quality" means assets that are imbued with inherent competitive advantages, which are under long-term contract with credit-worthy customers, and either service or are in close proximity to long-life and economic hydrocarbon reserves. This strategy is intended to generate stable or increasing per-unit cash distributions to Pembina's Unitholders over the long-term.

Pembina's business is structured in three key segments: Conventional Pipelines, Oil Sands Infrastructure and Midstream.

The primary objective for Pembina's conventional pipeline assets located in Alberta and British Columbia ("BC") is safe, reliable operations and the maintenance of operating margin contribution while pursuing opportunities for increased throughput and revenue enhancement. Margins are maintained through incremental volume capture, use of toll management, strict adherence to operating cost control, expansion, and asset rationalization. By offering cost-effective, competitively positioned and reliable transportation services to our customers, Pembina undertakes to attract new business to its conventional pipeline systems.

Pembina has leveraged its uniquely positioned infrastructure and operating knowledge in the oil sands sector to pursue future opportunities in this key sector. Pembina's existing oil sands assets, and those recently developed or currently under development (primarily the Horizon Pipeline), offer fully contracted and long-term returns which provide a secure stream of stable cash flow to the Fund. Further expansion of Pembina's business interests in this area is a priority. Pembina anticipates that developing midstream services over segments of its conventional pipeline systems will produce significant benefits to both pipeline customers and to Unitholders of the Fund. The strategy both expands the range of services offered to our customers and extends the economic life of Pembina's conventional asset base, with substantial revenue enhancement potential. For these reasons, further expansion of Pembina's midstream business is also a priority.

Financial Management

Pembina maintains a conservative capital structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. Pembina funds its operating commitments, short-term capital spending as well as its distributions to Unitholders through this cash flow, while new borrowing and equity issuances are reserved for the support of specific significant development activities. Long-term debt is comprised of bank credit facilities, senior secured and unsecured notes and convertible debentures, all of which are denominated in Canadian dollars.

Corporate Governance

Pembina is committed to high standards of corporate governance and ethical practice, both within the corporate boardroom and throughout its operations. Pembina's Code of Ethics, which is available on the Fund's website at **www.pembina.com** and on the Fund's SEDAR profile at **www.sedar.com**, outlines our vision, strategy and commitment to fair and ethical practices. The Code of Ethics establishes a high standard governing the activities of Pembina's employees, executive and Board members, and reiterates Pembina's commitment to privacy and the protection of confidential information, a safe, healthy and respectful workplace and environmentally sound operations. Beyond this, Pembina maintains a culture of strong corporate governance and it ensures that it is in compliance with all existing rules and regulations of the governing bodies under which it operates. These corporate governance practices are not limited to internally focused activities. Pembina places a great deal of importance on community involvement and maintaining good relationships with all stakeholders.

Reporting and Disclosure Controls and Procedures

As part of the requirements mandated by the Canadian securities regulatory authorities under Multilateral Instrument 52-109 "Certification of Disclosure in Issuer's Annual and Interim Filings", the Chief Executive Officer and the Chief Financial Officer have evaluated Pembina's reporting and disclosure controls and procedures as of December 31, 2007. It was concluded that the disclosure controls and procedures are effective in ensuring that the information disclosed in the financial statements, the annual report and other filings to the Canadian securities regulatory authorities are accurate and complete and filed within the mandated timelines. These reporting and disclosure controls provide reasonable assurance that the information that Pembina is required to disclose is appropriately accumulated and communicated to Pembina's management in a timely manner.

The certifying officers are also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our consolidated financial statements. The Fund has designed such controls and confirms that there have been no changes that occurred during the year that have materially affected the Funds' internal control over financial reporting.

New Developments and Outlook

Pembina has established a diversified portfolio of high quality, long-life assets in western Canada. Pembina's objective has been focused on providing a stable stream of distributions to Unitholders that are sustained over the long-term while pursuing opportunities for enhancement through accretive growth.

Pembina remains confident that the new connections and upgrades that are underway, and those that have come on-stream in 2007, on the Alberta systems may provide year-over-year increases in cash flow contribution to offset the cash flow impact of natural production declines. These include the completion in early 2008 of the $25 million Peace system product segregation facilities which are designed to maintain, and possibly enhance, the stream quality for Pembina's customers.

During 2007, Pembina began work on a proposed pipeline project targeting Nipisi Lake and Seal area heavy oil producers, in response to industry demand for reliable diluent and take away capacity from this region. We expect the project will include a 22,000 barrels per day diluent pipeline and a 100,000 barrels per day heavy oil diluent pipeline. Pembina expects to use a combination of existing infrastructure and new facilities to provide competitive transportation services to and from these areas. Total capital for this project is estimated at $360 million with a targeted start up in 2010. The Nipisi Pipeline project is an excellent growth opportunity that will enhance Pembina's existing portfolio of assets in the area.

Construction of the Horizon Pipeline project is nearing completion with two of the three phases completed during 2007. With the final construction phase underway, Pembina expects completion of this project in July 2008. The completion of the Horizon Pipeline will add additional cash flow to the oil sands infrastructure business. Combined with the existing Syncrude Pipeline, Pembina anticipates that it will have capacity to transport approximately 640,000 barrels per day of synthetic crude oil produced from oil sands with exclusive rights to provide further transportation capacity to Canadian Natural Resources Limited's Horizon Oil Sands Project ("Horizon Project") should it be required.

In 2007, Pembina realized the benefits of the first year of revenue contribution from the Cheecham Lateral.

Returns generated by Pembina's midstream business have risen dramatically over the past three years and, should current market conditions persist, Pembina expects this trend to continue to increase in 2008 as new services are introduced.

In January 2007, Pembina increased its annual distribution rate to $1.32 per Trust Unit and in August announced a further increase to $1.44 effective with the August distribution paid September 14, 2007. With solid results in all areas of its business, Pembina expects that the new distribution rate is sustainable for the foreseeable future.

We anticipate further growth opportunities on the conventional pipelines and expansion of the oil sands business which, together with the continuing development of the midstream services, lend confidence in Pembina's ability to meet the distribution objective going forward.

Over the next year, Pembina anticipates growing demands related to the inspection and maintenance of our asset base from both a regulators and prudent operators perspective. Pembina will safely manage and operate all of its systems and infrastructure while ensuring overall operating margins are maintained.

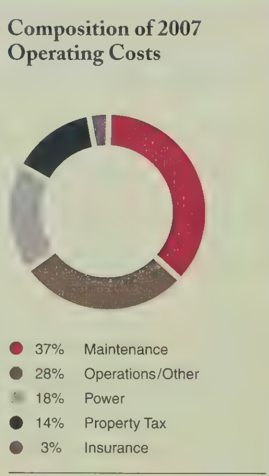
Results From Operations

(in millions of dollars, except where noted)	2007 Revenues	2007 Net operating income (1)	2006 Revenues	2006 Net operating income (1)
Conventional Pipelines	**$ 249.1**	**$ 151.8**	$ 223.0	$ 133.1
Oil Sands Infrastructure	**61.7**	**38.0**	62.1	37.3
Midstream Business	**78.9**	**70.3**	50.7	44.8
Total	**$ 389.7**	**$ 260.1**	$ 335.8	$ 215.2

(1) *Refer to "Non-GAAP Measures" on page 14.*

Consolidated revenue in 2007 was $389.7 million, a 16.1 percent increase from 2006 revenue of $335.8 million. On the Conventional Pipelines, the increase is due to higher tolls resulting from a combination of increased operating costs and returns on capital expenditures. Strong year-over-year growth of the midstream business operations also contributed to the increase in total revenues. The conventional pipeline systems generated revenue of $249.1 million in 2007, an increase of $26.1 million or 11.7 percent compared to revenue of $223.0 million in 2006. The oil sands systems generated revenue of $61.7 million in 2007 relative to $62.1 million in 2006. The midstream operations generated revenue of $78.9 million, an increase of $28.2 million from 2006 midstream revenue of $50.7 million, a 55.6 percent increase over the previous year.

Net operating income in 2007 was $260.1 million, representing a 20.9 percent or $44.9 million increase from 2006 net operating income of $215.2 million. Higher revenues of $53.9 million were offset by a $9 million or 7.5 percent increase in operating costs from $120.6 million in 2006 to $129.6 million in 2007. Higher operating expenses were due to increased labour costs, property taxes, maintenance spending and higher power costs.



Conventional Pipelines

	2007		2006	
(in millions of dollars, except where noted)	Alberta	BC [(1)]	Alberta	BC [(1)]
Average throughput *(mbbls/day)*	**422.7**	**24.4**	425.8	22.7
Revenue	**$ 216.4**	**$ 32.7**	$ 195.2	$ 27.8
Operating expenses	**79.7**	**17.6**	72.1	17.8
Net operating income [(2)]	**136.7**	**15.1**	123.1	10.0
Capital expenditures [(3)]	**72.1**	**5.0**	41.1	13.7
Operating expenses *($/bbl)*	**0.52**	**0.89**	0.46	0.88
Average revenue *($/bbl)*	**$ 1.40**	**$ 1.66**	$ 1.26	$ 1.38

(1) Represents volume transported on the Western system only. BC Volume transported east is included in Alberta pipelines total. Revenue, operating expenses and net operating income include both Western and BC gathering system results.

(2) Refer to "Non-GAAP Measures" on page 14.

(3) Maintenance capital in 2006 has been reclassified to development capital for comparative purposes. Capital expenditures includes capitalized interest less recoveries.

Alberta Pipelines

Throughput on the Alberta pipelines averaged 422,700 barrels per day in 2007, a slight decrease from the 2006 average throughput of 425,800 barrels per day. The Alberta pipelines continued to benefit from industry activity where new connections added over 7,600 barrels of crude oil per day of throughputs to the Alberta systems during 2007. The resulting increased volumes were offset by a reduction in natural gas liquids receipts of 9,800 barrels per day from several connected gas plants.

The Alberta pipelines generated revenue of $216.4 million in 2007, up from $195.2 million in 2006. The completion of the Drayton Valley product segregation facilities late in 2007 contributed to higher revenues on the Alberta systems. This initiative physically separates the low sulphur sweet crude from crudes containing higher levels of sulphur, thus preserving the higher value of sweet crude for shippers. Average revenue per barrel on the Alberta systems of $1.40 in 2007 was up 14 cents per barrel compared to the average of $1.26 in 2006. Higher per barrel revenue on the Alberta systems was partially attributable to toll adjustments implemented on certain systems in early 2007.

Operating expenses for the Alberta conventional pipelines were $79.7 million in 2007, up $7.6 million from $72.1 million in 2006. The increase is attributable to increases in maintenance spending, labour and property taxes. Power continues to comprise a significant component of these costs, constituting over 10 percent of the total operating costs for the Alberta conventional pipelines. As part of Pembina's risk management program, the non-transmission portion of costs on principally all of Pembina's estimated power requirements for its Alberta conventional pipelines have been fixed in a power rate swap transaction.

Pembina has hedged 16 mega watts per hour to December 31, 2010 to help mitigate our exposure to power cost fluctuations. As a result of the hedge, power cost savings were $2.9 million in 2007 compared with savings of $4.6 million in 2006. These power cost savings are flowed through to customers. The fixed unit costs for 2007 under this hedging arrangement were below the market cost of electric power during the year, and the mark to market value of the power rate swap at December 31, 2007 resulted in an unrealized gain of $10.8 million (refer to *"Changes in Accounting Principles and Practices"* on page 32).

Pembina maintains a positive outlook for 2008 operating results for the Alberta conventional pipelines. Pembina expects that a number of new connections and facility upgrades in development, and toll increases on Peace and Swan Hills systems implemented early in 2008 to counter the effect of continually rising operating expenses will offset the impact of natural declines in volumes from connected reserves. In addition, Pembina anticipates that the completion of the $25 million Peace product segregation project during the first half of 2008 will enable Pembina to maintain or enhance the stream quality and associated product pricing.

BC Pipelines

Volumes transported on the BC gathering systems averaged 29,700 barrels per day in 2007, a decrease from the 2006 average of 32,200 barrels per day. Volumes shipped on the BC gathering system are directed by shippers onto the Western system or east on the Alberta conventional systems. The year-over-year decrease in volumes is primarily due to natural declines as well as condensate volumes being diverted for use as diluent. Volumes transported on the Western system in 2007 averaged 24,400 barrels per day, up from 22,700 barrels per day in 2006. The increase is to a large extent due to shippers electing to transport a larger portion of product west on the Western system rather than east on Pembina's Peace system.

Revenue generated by the BC Gathering Systems and the Western system (collectively called the "BC Pipelines") was $32.7 million in 2007, a 17.6 percent increase from 2006 revenue of $27.8 million. This increase is due to a higher revenue requirement on the provincially regulated BC Gathering Systems resulting from increased maintenance and capital expenditures. Revenue on the BC Gathering Systems totaled $18.3 million, an increase over the 17.8 million generated during 2006. Revenue generated by the Western System increased by $4.4 million, from $10.0 million in 2006 to $14.4 million in 2007.

Operating expenses on the BC Pipelines totaled $17.6 million in 2007, a slight decrease from the $17.7 million expended in 2006. In 2004, Pembina expanded its maintenance, inspection and integrity program on the BC Pipelines – with special focus on the Western System. Over the length of the program, BC facilities have been undergoing major upgrading, inspections and repair programs with $3.1 million expended during 2007 for these continued integrity requirements.

The crack inspection program continued in 2007 on the Western System. Pembina conducted a corrosion inspection on the southern half of the Western System in 2007.

Revenue on the provincially regulated BC Gathering Systems is based on recovery of operating costs and a return on capital invested, and is independent of throughput. Pembina does not anticipate any new connections to these pipelines in 2008. Volumes on the Western system were transported at tariff rates fixed under a tolling agreement that expired mid-2007. The British Columbia Utilities Commission (BCUC) accepted, on an interim basis, Pembina's toll application effective July 1, 2007 which served to increase revenues on this system during the second half of 2007.

The interim tolls are calculated in accordance with the established BCUC tolling methodology for the Western system. Pembina is currently preparing for a toll hearing to set permanent tolls; at this time no date has been set for this hearing. Management believes the tolls ultimately established by the BCUC will give Pembina a reasonable return on its capital and reimbursement of its operating expenses.

Oil Sands Infrastructure

(in millions of dollars, except where noted)	**2007** [1]	2006 [1]
Contracted capacity *(mbbls/day)*	**525.0**	389.0
Revenue	**$ 61.7**	$ 62.1
Operating expenses	**23.7**	24.8
Net operating income [2]	**38.0**	37.3
Capital expenditures [4]	**212.7**	101.8
Operating expenses *($/bbl)* [3]	**0.21**	0.26
Average revenue *($/bbl)* [3]	**$ 0.54**	$ 0.65

(1) *Oil sands revenue is contract-based and independent of utilization rates, therefore oil sands volumes reported are contracted capacity.*

(2) *Refer to "Non-GAAP Measures" on page 14.*

(3) *Calculation uses actual average throughput.*

(4) *Capital expenditures include capitalized interest less recoveries for Cheecham ($8.9 million) and the C5 Project ($5.6 million).*

Pembina's oil sands infrastructure consists of: the Syncrude Pipeline (formerly AOSPL) which provides dedicated service to Syncrude, the world's largest crude oil producer from oil sands; the Cheecham Lateral pipeline which delivers synthetic crude oil to a facility near Cheecham Alberta; and, the Horizon Pipeline which will provide dedicated service from Canadian Natural Resource Limited's (CNRL) Horizon Project, located 70 kilometres north of Fort McMurray, to Edmonton, Alberta and is expected to come into service in July 2008.

The fully contracted Syncrude Pipeline transported an average of 310,800 barrels per day during 2007, 18 percent higher than 2006. This pipeline has a transportation capacity of 389,000 barrels per day and is fully contracted to the Syncrude owners. The Syncrude Pipeline generated revenue of $57.1 million in 2007, a $5 million or 8 percent decrease from 2006 revenue of $62.1 million. This revenue decrease is reflective of the lower operating costs in 2007 that we flowed through to the shippers.

The Cheecham Lateral has a capacity of 136,000 barrels per day and is fully contracted to shippers. This pipeline was completed in late 2006 and began generating revenue on February 1, 2007. The Lateral contributed $4.7 million in revenue during 2007.

Revenue on these pipelines is contracted to recover operating costs and earn a return on invested capital and therefore is not impacted by actual pipeline throughput.

Pembina actively developed its oil sands infrastructure during the year with two of the three phases of construction on the Horizon Pipeline completed during 2007. Pembina is committed to working collaboratively with its customer, CNRL, to help ensure that the project continues on schedule. Pembina is currently targeting completion of construction for July 1, 2008. Pembina expects that the Horizon Pipeline will ultimately have a capacity of 250,000 barrels per day with an estimated total cost of $400 million. The increase from the previous estimates of $350 million results from numerous changes in project scope and cost escalation. CNRL will have exclusive use of the Horizon Pipeline and Pembina will have the exclusive right to construct expansions or extensions to the pipeline. The contracted revenue requirement includes a provision for a fixed rate of return on invested capital and the full recovery of operating costs.

For 2008, Pembina expects revenue from the oil sands operations to increase due to revenues being recorded from the Horizon Pipeline starting July 1, 2008. Pembina does not anticipate any significant change to the rate base or operating costs for Syncrude for 2008.

Midstream Business

(in millions of dollars, except where noted)	**2007**	2006
Revenue [1]	$ **78.9**	$ 50.7
Operating expenses	**8.6**	5.9
Net operating income [2]	**70.3**	44.8
Capital expenditures [3]	$ **10.5**	$ 12.3

[1] *Net of $115.1 million in product purchase expense for 2007 (2006: $5.1 million).*

[2] *Refer to "Non-GAAP Measures" on page 14.*

[3] *Maintenance capital in 2006 has been reclassified to development capital for comparative purposes. Capital expenditures include capitalized interest.*

The midstream business consists of Pembina's 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility and the wholly-owned terminalling, storage and hub services operated across segments of Pembina's conventional pipeline systems.

Midstream services are now offered on Pembina's Swan Hills, Cremona and Drayton Valley pipeline systems. Total net operating income generated by the midstream business in 2007 was $70.3 million, up $25.5 million from 2006. The Fort Saskatchewan Ethylene Storage Facility generates returns based on a 20-year renewable contract, maturing in June 2023. The contract, with the two principal facility customers, provides for full operating cost recovery plus a return on invested capital. Total revenue generated by the Fort Saskatchewan Ethylene Storage Facility in 2007 was up slightly from 2006 at $24.4 million compared to $21.9 million in 2006 due to higher operating costs and slightly higher sustaining capital.

Operating costs on the midstream operations increased year over year due to increased business activities. Pembina expects to see continued growth in the terminalling, storage and hub services over the next several years, and currently has a number of projects under development. Pembina expects the 2008 results of the Fort Saskatchewan Ethylene Storage Limited Partnership to be very similar to 2007 given the long-term contract on the Fort Saskatchewan Ethylene Storage Facility and the stable nature of the revenue stream generated from Pembina's interest in this facility.

Expenses

General and administrative and management fees

General and administrative expenses and management fees were $30.6 million in 2007, an increase of $5.6 million over the $25.0 million expended in 2006. The most significant components of this increase were salaries, benefits and consulting fees associated with new opportunities. As Pembina's asset base continues to expand, the company faces an increasing number of operational, regulatory and compliance requirements as well as costs associated with the development of future opportunities. These increased demands have required an increase in staff levels in order to ensure sufficient resources are available. The Calgary based staff grew from 98 people at the end of 2006 to 109 at the end of 2007, an increase of 11.2% in staff complement. In recent years, staffing costs have risen, as appropriately trained and experienced staff are more difficult to attract and retain. Overall, general and administrative expenses represent 11.8 percent of net operating income and 7.9 percent of revenues (net of product purchases) in 2007, which is consistent year-over-year.

Effective June 30, 2006, the Fund acquired all the outstanding common shares of Pembina Management Inc. (Manager), the manager of the Fund, from executive officers of Pembina. Total consideration for the transaction consisted of an initial cash payment of $6 million and a contingent deferred payment payable in 2009 that is linked to future growth in distributable cash per Trust Unit of the Fund. If the future cumulative distributable cash in the period from January 1, 2006 to December 31, 2008 does not exceed $3.42 per Trust Unit ($1.14 per Trust Unit per year), the deferred amount is zero. Every approximate 10 cent per Trust Unit increase in cumulative distributable cash over $3.42 per Trust Unit results in a $1 million increase in purchase price to a maximum of $15 million, which is converted into notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of $15.87 (the closing price). The purchase price will also be adjusted by the distributions payable on the notional Trust Units for the period January 1, 2006 to December 31, 2008, and the change in the value of the Fund's Trust Units from the closing price.

Except in certain limited circumstances, no further payments under the share purchase agreement are payable until 2009; however, assuming the 2008 distributable cash is similar to the combination of 2006 and 2007 distributable cash, the potential deferred payment would be $9.5 million with $4.7 million expensed in 2007. Pursuant to the share purchase agreement, a copy of which is available at **www.sedar.com** and on Pembina's website, no future management fees will be payable by the Fund to the Manager (refer to Note 3 to the Financial Statements).

Depreciation and amortization

Depreciation and amortization expenses decreased year-over-year by $19.1 million from $85.6 million in 2006 to $66.5 million in 2007. The decrease was a result of revised estimated useful lives for the conventional pipeline assets effective January 1, 2007 (see *"Critical Accounting Estimates"* on page 32). Conventional pipeline assets and facilities are depreciated: on a straight line basis over the estimated service life of the assets which range from 25-30 years depending on the pipeline system; or on a declining balance basis at rates ranging from 3 percent to 10 percent per annum. These rates have been established to depreciate original costs over the economic or contractual life of the related assets. Syncrude Pipeline assets and the Cheecham Lateral assets are depreciated over the life of the long-term transportation agreement under which these systems are administered. The agreement in respect of the Syncrude Pipeline is currently set to expire at the end of 2035 and the agreement in respect of the Cheecham Lateral is currently set to expire at the end of 2032. The storage facility assets are amortized over the 20-year life of the storage agreement, which expires in June 2023.

Accretion on asset retirement obligations

Accretion on asset retirement obligations was $2.7 million in 2007 compared to $1.4 million in 2006. The increase was due to the increase in the asset retirement obligation (re-evaluated yearly) for estimates related to the ultimate retirement expense of assets and facilities. In 2007, a yearly reevaluation resulted in a 50 percent increase in abandonment and dismantling costs. Accretion on asset retirement obligations is based on estimates of the operating life and the ultimate retirement expense for assets and facilities. The actual results may differ from these estimates. There were no asset retirements in 2007 or 2006.

Interest expense and financial instruments

Net interest expense for 2007 was $29.5 million compared to $24.9 million in 2006, a $4.6 million increase. The increase in interest expense is due to the increase in average debt cost throughout the year. Outstanding total debt at the end of 2007 was $786.7 million (excluding deferred financing fees), $233.3 million higher than the 2006 closing balance of $553.4 million. The increase in debt is mostly due to the financing of development capital expenditures in 2007 of $300.3 million. In 2007, interest of $9.9 million relating to development projects was capitalized in 2007 compared to $4 million in 2006. At year end, Pembina had a $60.0 million interest rate swap outstanding on the floating senior debt, with an average rate of 4.56% and an average remaining term to expiration of 0.4 years. The unrealized mark to market gain on the interest rate swap was $0.02 million as at December 31, 2007. Including the interest swaps, interest rates on $521.7 million in senior secured and unsecured notes have been fixed, leaving roughly 34 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

Convertible debentures

Interest on convertible debentures in 2007 was $4.8 million, compared to $7.7 million for 2006. The $2.9 million decrease is due to the conversion of a significant number of the convertible debentures into Trust Units. In 2007, $29.1 million in convertible debentures were converted into Trust Units, reducing the total principal amount outstanding, net of issue costs, from $76.8 million at December 31, 2006 to $47.7 million at December 31, 2007, represented by the 7.35 percent debentures convertible at $12.50 per unit maturing December 31, 2010. Furthermore, the 7.50% debentures matured on June 30, 2007. Given that the trading price of the Trust Units consistently remains above the conversion prices for the debentures, Pembina anticipates that the conversion of the debentures into Trust Units will continue throughout 2008 but at a slower rate with one remaining debenture issue.

Income taxes

As the Fund is a unit trust for income tax purposes, the Fund is taxable on the income that is not distributed to Unitholders. Pursuant to its Declaration of Trust, the Fund is required to distribute all of its income to the Unitholders, subject to maintaining sufficient working capital reserves. However, the subsidiaries of the Fund are taxable entities and any income tax expenses or future income tax liabilities reported in the consolidated financial statements of the Fund are those of the subsidiaries.

As at December 31, 2007, the future income tax liabilities of the subsidiaries totaled $94 million. These liabilities are determined by applying future statutory income tax rates to the differences between the book values and the tax values of the capital assets. The differences arose either at the time of the initial acquisition of the assets on the establishment of the trust or on subsequent acquisitions. Upon recognition of the future income tax liability, an equivalent amount has been allocated to goodwill as the estimated depreciated replacement cost of the acquired assets approximated the value of those assets. The future income tax reduction of $22.5 million in 2007 represents the change between the book value and the tax value of the acquired assets at the future statutory income tax rates plus other timing differences.

Pension liability

The Fund's subsidiary, Pembina Pipeline Corporation, maintains non-contributory defined benefit pension plans together with an unfunded supplemental retirement plan covering 324 employees and 114 retirees. At the end of 2007, the pension plans carried a deficit of $3.8 million, compared to a deficit of $6.1 million at the end of 2006. At December 31, 2007, plan obligations amounted to $76.5 million, compared to plan assets of $72.7 million. During 2007, the pension plans' expense was $4.8 million, compared to $4.6 million in 2006. Contributions to the pension plans totaled $3.8 million in 2007, down from 2006 contributions of $9 million resulting from a reduction in the voluntary portion of the contribution due to a significant reduction in the deficit of the plans.

The accrued pension plans asset of $12.2 million represents the net difference between the amounts required to be expensed in the Fund's financial statements and the amount contributed to the pension plans. In 2008, contributions to the pension plans and the pension plans expense are both anticipated to be $4 million. Management anticipates a long-term return on the pension plans assets of 6.75 percent and an annual increase in compensation of 5.3 percent, which are in line with current industry standards.

Net Earnings

Years ended December 31, 2007 and 2006 (in millions of dollars, except per Trust Unit amounts)	2007	2006
Revenues [1]	**$ 389.7**	$ 335.8
Less: operating expenses	**129.6**	120.6
Net operating income [2]	**260.1**	215.2
Deduct/(add):		
General and administrative	**30.6**	24.0
Management fee		1.0
Internalization of management contract	**4.7**	6.0
Interest on long-term debt	**29.5**	24.9
Interest on convertible debentures	**4.8**	7.7
Depreciation and amortization	**66.5**	85.6
Accretion on asset retirement obligations	**2.6**	1.4
Future income tax reduction	**(22.5)**	(24.3)
Other	**1.6**	
Net earnings	**$ 142.3**	$ 88.9
Net earnings per Trust Unit – basic	**$ 1.09**	$ 0.73
Net earnings per Trust Unit – diluted	**$ 1.06**	$ 0.73

(1) *Net of product purchases of $115.1 million in 2007; $5.1 million in 2006.*

(2) *Refer to "Non-GAAP Measures" on page 14.*

Pembina's net earnings in 2007 were $142.3 million, an increase of $53.4 million from 2006. This increase is primarily due to increased total revenue from the conventional and midstream business segments of $53.9 million and decreased depreciation and amortization of $19.1 million offset by increases in total expenses of $19.6 million. Increased operating expenses, interest expense on long-term debt, accretion and general and administrative costs from 2006 to 2007 are countered by declines in interest paid on convertible debentures over the same period due to the conversion of a significant number of these securities over the year and decreases in internalization of management fees and depreciation and amortization. Future income tax recoveries are $1.8 million lower in 2007 than in 2006, primarily due to the impact of the change in enacted tax rates of $4.4 million offset by other changes in temporary differences.

Distributed Cash

Years ended December 31, 2007 and 2006 (in millions of dollars, except per Trust Unit amounts)	**2007**	2006
Cash flow from operations	**$ 189.5**	$ 143.9
Add/(deduct):		
Maintenance capital expenditures		(3.4)
Employee future benefits expense	**(4.8)**	(4.6)
Employee future benefits contributions	**3.8**	9.0
Changes in non-cash working capital	**2.7**	4.8
Other	**(2.3)**	(1.5)
Distributable cash [(1)]	**188.9**	148.2
Increase in distribution reserve	**(10.0)**	(5.9)
Distributed cash [(1)]	**$ 178.9**	$ 142.3
Distributable cash [(1)] per Trust Unit (before reserve)	**$ 1.45**	$ 1.21
Distributed cash per Trust Unit [(1)]	**$ 1.37**	$ 1.165
Diluted distributed cash per Trust Unit [(1)]	**$ 1.33**	$ 1.16

(1) *Refer to "Non-GAAP Measures" on page 14.*

Distributable cash is a Non-GAAP measure that the Fund uses to manage its business and to assess future cash requirements that impact the determination of future distributions to Unitholders. The Fund defines distributable cash as cash flow from operations less pension and post retirement benefit expense net of contributions, net changes in non-cash working capital, Trust Unit based compensation expense and financing fees. The impact of these items is excluded in the calculation of distributable cash as it adjusts for timing differences throughout the year.

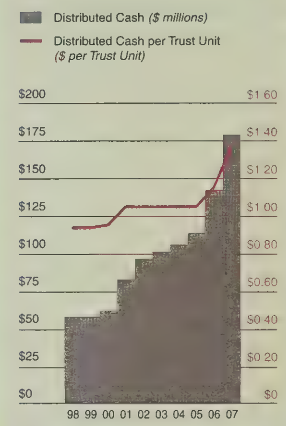
2007 Cash Distributions to Unitholders

Record Date	Payment Date	Taxable Other Income	Non-Taxable Amount	Total
January 31, 2007	February 15, 2007	$0.094765	$0.015235	$0.11000
February 28, 2007	March 15, 2007	$0.094765	$0.015235	$0.11000
March 31, 2007	April 13, 2007	$0.094765	$0.015235	$0.11000
April 30, 2007	May 15, 2007	$0.094765	$0.015235	$0.11000
May 31, 2007	June 15, 2007	$0.094765	$0.015235	$0.11000
June 30, 2007	July 13, 2007	$0.094765	$0.015235	$0.11000
July 31, 2007	August 15, 2007	$0.094765	$0.015235	$0.11000
August 31, 2007	September 14, 2007	$0.103380	$0.016620	$0.12000
September 30, 2007	October 15, 2007	$0.103380	$0.016620	$0.12000
October 31, 2007	November 15, 2007	$0.103380	$0.016620	$0.12000
November 30, 2007	December 14, 2007	$0.103380	$0.016620	$0.12000
December 31, 2007	January 15, 2008	$0.103380	$0.016620	$0.12000
		$1.180260	$0.189740	$1.37000

Of the total distribution of $1.37 per Trust Unit declared in 2007, $1.18026 per Trust Unit, or 86.15 percent, is taxable "other income" and $0.18974 per Trust Unit, or 13.85 percent, is non-taxable. For most Unitholders, the non-taxable portion is considered a return of capital, which will reduce the cost base of each Trust Unit. Pembina projects that in 2008 these proportions will be approximately 85 percent of the total distribution per Trust Unit being taxable "other income" and the remaining 15 percent as nontaxable return of capital.

It is the Canada Revenue Agency's administrative position that for Unitholders participating in the regular distribution reinvestment plan, the five percent discount at which additional units are acquired is considered income in the hands of the Unitholder. Further, we believe that the two percent premium earned under the premium distribution component of the Premium Distribution, Distribution Reinvestment and Optional Cash Purchase Plan ("DRIP") will continue to be taxed as income.

Distributed Cash [(1)]



(1) Refer to "Non-GAAP Measures" on page 14.

The table below shows the Fund's cash distributions paid relative to cash provided by operating activities and net earnings for the years indicated. See also "New Developments and Outlook" and "Risk Factors" below for further information regarding the sustainability of cash distributions.

(in millions of dollars, except where noted)	**2007**	2006	2005	2004
Cash flow from operations	$ **189.5**	$ 143.9	$ 112.4	$ 117.6
Net earnings	**142.3**	88.9	70.4	60.4
Distributed cash	**178.9**	142.3	113.5	106.2
Excess (shortfall) of cash flow from operations over distributed cash	**10.6**	1.6	(1.1)	11.4
Excess (shortfall) of net earnings over distributed cash	**(36.6)**	(53.4)	(43.1)	(45.8)
Cumulative notional reserve	$ **31.0**	$ 21.0	$ 15.1	$ 5.2

The continued growth in distributed cash reflects the growth in both Pembina's asset base and the Unitholder base. Distributed cash rose by $36.6 million, from $142.3 million in 2006 to $178.9 million in 2007, and is funded exclusively from operations. Cash Distributions per Trust Unit increased from $1.165 to $1.37. Pembina's notional distribution reserve also grew, from $21.0 million at the end of 2006 to $31.0 million at the end of 2007. Pembina maintains a notional reserve in order to ensure stability over economic and industry cycles and to absorb the impact of material one-time events. Therefore, not all available cash is distributed to Unitholders but instead, a portion of the Fund's distributable cash is used to reduce bank indebtedness. Historical cash distributions compared to cash flow from operations shows excess cash flow in every period except 2005. The shortfall in 2005 was due to a prepaid pension contribution made by the Fund in the amount of $13.3 million and due to changes in non-cash working capital. As at December 31, 2005, a cumulative reserve of $15.1 million remained after funding the shortfall. Cash distributions to Unitholders are greater than net earnings as the Fund does not consider it necessary to retain

depreciation that has been deducted in the determination of net earnings. The earning capacity of the Fund's existing assets will generally not erode and are not expected to be replaced provided they are properly maintained; such maintenance costs are deducted in determining net earnings. Asset additions increase the earning capacity of the Fund and are financed in either the debt or equity markets and are not dependent on cash flow from existing assets.

Non-Resident Unitholders

Current domestic tax laws require a withholding tax from distribution income to non-residents of Canada at a rate of 25 percent. The withholding rate on income may be reduced pursuant to a bilateral income tax convention between Canada and the country in which the Unitholder is resident. For US residents, the withholding tax is reduced to 15 percent on trust income distributions. Such income is determined in accordance with the laws of Canada. It is important for Unitholders to contact their brokers or financial institution with regards to the amount of withholding tax that is being deducted, as it is our understanding that the withholding tax is determined by the financial institution where the units are held. Accordingly, we do not comment on the impact of relevant tax laws in various jurisdictions of residence but advise individuals to seek tax advice in this regard.

Pembina believes it should be considered a qualified foreign corporation and its distributions should be considered qualified dividends for US federal income tax purposes. Tax information relating to US residents is included on our website at **www.pembina.com**.

Our advice should not be interpreted as being specific tax advice and it is recommended that Unitholders or potential Unitholders consult their own legal or tax advisors as to their particular income tax consequences of holding Pembina Trust Units.

Liquidity and Capital Resources

($ millions)	**2007**	2006
Working capital (deficiency)	**$ 2.4**	$ (3.2)
Variable rate debt		
Bank debt	**250.0**	10.7
Senior unsecured notes	**75.0**	75.0
Variable rate debt swapped to fixed	**(60.0)**	(60.0)
Total variable rate debt outstanding (average rate of 5.98%)	**265.0**	25.7
Fixed rate debt		
Senior unsecured notes	**375.0**	375.0
Senior secured notes	**86.7**	92.7
Variable rate debt swapped to fixed	**60.0**	60.0
Total fixed rate debt outstanding (average rate of 5.90%)	**521.7**	527.7
Convertible debentures	**47.7**	76.8
Total debt and debentures outstanding	**834.4**	630.2
Unutilized debt capacity	**$ 280.0**	$ 249.3

The Fund's cash flow from operations was $189.5 million in 2007, compared to $143.9 million in 2006. The increase in cash flow was primarily due to increased tariffs and the growth of midstream activities on certain segments of the conventional pipeline systems.

Pembina has increased its credit facilities to $1,066.7 million, of which $280.0 million was unutilized at year-end. The Fund's credit facilities at the end of 2007 consisted of an unsecured $500 million revolving credit facility and a $30 million operating line of credit. On July 24, 2007, the revolving credit facilities were increased from $230 million to $500 million for a period of five years to July 24, 2012. In addition, the $30 million operating facility was extended to July 24, 2008. At December 31, 2007, Pembina had $250 million drawn leaving $280 million of undrawn capacity on the $530 million established facilities. There are no repayments due over the term. Borrowings bear interest at either prime lending rates or based on bankers acceptances plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from 0.50 percent to 1.50 percent. Other debt includes $87 million in fixed rate senior secured notes due 2017, $175 million in fixed rate senior unsecured notes due 2014, $75 million of floating rate senior unsecured notes due 2009 and $200 million in senior unsecured notes due 2021 (refer to Note 7 to the Financial Statements).

At December 31, 2007, Pembina had long-term debt of $786.7 million (excluding deferred financing fees) compared to $553.4 million at the end of 2006. Repayments of interest and principal on Pembina bank indebtedness and senior notes ranks in priority to monthly cash distributions to be paid to Unitholders.

Pembina believes it has sufficient debt capacity and operating cash flow to meet the construction commitments relating to the Horizon Pipeline.

Management believes that the Fund has sufficient liquidity to meet its daily operational commitments and existing obligations. Principally, all of the Fund's accounts receivable are with customers in the oil and gas industry and under the terms of the Fund's shipping rules and regulations or pursuant to contracts. Balances are payable on the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and customers. Furthermore, on the conventional pipeline systems, the Fund has the right to take the shipper's oil in kind to settle any outstanding receivable balance. Therefore, the risk of non-collection is considered to be extremely low.

The Fund distributes all of its net cash flow, subject to retaining an appropriate distribution reserve, financing, making repayments on debt and, if applicable, funding future removal and site restoration reserves. Aggregate debt (long-term debt plus debentures) of $834.4 million at December 31, 2007 resulted in a ratio of total debt to total enterprise value of 26.2 percent. This compares to $630.2 million and 23.7 percent, respectively, at the end of last year.

($ millions)	2007	2006
Development capital [(1)]		
Conventional pipelines	**$ 77.1**	$ 54.8
Oil Sands Infrastructure	**212.7**	101.8
Midstream business	**10.5**	12.3
Total development capital [(1)]	**$ 300.3**	$ 168.9

(1) Maintenance capital in 2006 has been reclassified to development capital for comparative purposes. Development capital includes capitalized interest less recoveries.

Development capital expenditures totaled $300.3 million in 2007, an increase of $131.4 million from 2006. A significant amount of this increase is related to construction costs for the Horizon Pipeline. Capital expenditures for the conventional systems of $77.1 million during 2007 related to $37.6 million for new connections and upgrades, $13.6 million for the Peace system product segregation facilities and $25.9 million to complete the Drayton Valley system product segregation facilities. Oil sands infrastructure spending totaled $212.7 million net of C5 Project and Cheecham recoveries of $16.1 million. These expenditures are up significantly from 2006 due to $215.1 million spending for the Horizon Pipeline construction and $8.5 million invested in upgrades on the Syncrude Pipeline. Spending in the midstream business segment of $11 million related to operations equipment and expenditures on a truck unloading facility on the Swan Hills system and expenditures related to the development of other initiatives. Current significant capital expenditure commitments include $135 million of the $400 million total for the construction of the Horizon Pipeline which is expected to be incurred mostly in 2008 (refer to *Contractual Obligations* on the following page).

Credit rating agency ratings on the Pembina Pipeline Income Fund and Pembina Pipeline Corporation were confirmed by DBRS in early 2008 and S&P during 2007. The STA-2 (low) stability rating and 'BBB high' senior secured and 'BBB' senior unsecured debt rating assigned by the Dominion Bond Rating Services ("DBRS") and the SR-2 stability rating, 'BBB' long-term corporate credit with a stable outlook, 'BBB plus' senior secured and 'BBB' senior unsecured debt rating by Standard and Poor's ("S&P") are current.

The DBRS stability rating system measures the volatility and sustainability of distributions per Trust Unit on a rating scale STA-1 to STA-7 (STA-1 being the highest rating possible). STA-2 rated funds are considered to have very good distribution per Trust Unit stability and sustainability. The S&P rating system rates distributable cash on a scale of SR-1 to SR-7 with SR-2 rated funds considered to have very high stability. Debt securities rated BBB exhibit adequate protection parameters. These ratings recognize the Fund's stable asset profile and financial results, as well as the stability and sustainability of the per Trust Unit distribution.

These ratings are not recommendations to purchase, hold or sell the securities in as much as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgement, circumstances so warrant.

Contractual Obligations

		Payments Due By Period			
($ millions)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and vehicle leases	**$ 11.5**	$ 2.9	$ 4.2	$ 3.3	$ 1.1
Long-term debt	**786.7**	6.4	97.3	267.8	415.2
Convertible debentures	**47.7**		47.7		
Construction commitments	**135.2**	102.2	16.5	16.5	
Total contractual obligations	**$ 981.1**	$ 111.5	$ 165.7	$ 287.6	$ 416.3

Pembina is contractually committed to the construction and the operation of the Horizon Pipeline. Construction on the Horizon Pipeline is underway with two of the three phases completed and is currently projected to cost $400 million, with $265 million incurred to date and $135 million to be spent in later years. Pembina expects to utilize its undrawn facilities to finance the remaining costs of the Horizon Pipeline.

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the applications of generally accepted accounting principles that have a significant impact on the Fund. Readers are referred to Note 2 of the audited Consolidated Financial Statements as at and for the year ended December 31, 2007 for a description of the Fund's significant accounting policies. The following discussion outlines certain items for which critical estimates must be made in preparing those statements.

Depreciation

Effective January 1, 2007, the Fund has revised its estimate of the future useful life of its conventional pipeline assets. Based on recent expansion initiatives in the industry and the oil reserve life natural decline patterns of the pipeline assets, management believes that the estimated useful life of the assets is between 25-30 years depending on the pipeline system and expected throughputs. Management also believes that this change in useful life would be better reflected using the straight line method of accounting for depreciation. The Fund has commenced depreciating the conventional oil pipeline assets and facilities over 25 to 30 years on a straight line basis. On some pipeline systems, pipeline assets and facilities are depreciated using the declining balance method at rates ranging from three percent to ten percent per annum. The Syncrude and ethylene storage assets are depreciated using the straight-line method at rates ranging from three to five percent. These rates have been established to depreciate the original asset and facility costs over the economic lives or contractual duration of the related assets. Estimates of the economic life of various pipeline systems have been based on projecting future throughputs using historic oil and gas production decline rates and throughputs. Management has assumed that these historical trends will continue and that the increased tolls required to offset these decline rates will also remain competitive. However, the actual useful life of the assets may differ from management's original estimate due to higher decline rates, non-competitive tolls and customer requirements. A resultant change in depreciation expense would have a corresponding effect on the net earnings of the Fund.

Goodwill

Goodwill, which represents the estimated tax costs related to the difference between the fair value and the tax basis of acquired assets, is assessed by the Fund for impairment at least annually. Management estimates the fair value of these assets by discounting the projected future cash flows generated by these assets using the Fund's weighted average cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of the assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill. To date, there has been no impairment of these goodwill values.

Asset Retirement Obligations

Management recognizes the fair value of an estimated asset retirement obligation in the period in which it is incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The estimated fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to period earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual cost incurred upon settlement and the recorded liability is recognized as a gain or loss in the Fund's earnings.

Asset Impairment

Management regularly reviews property, plant, equipment and other intangibles to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. Impairment is generally considered to have occurred when the fair value of the future cash flows that are to be generated by an asset are less than the carrying value of that asset. If impairment has occurred, an impairment charge to earnings is recognized in the amount that the carrying value of the asset exceeds its fair value. To date, there has been no impairment in the carrying value of our assets.

Pensions and other Post Retirement Benefits

The Fund accrues for its obligations under its employee pension plans and the related costs, net of pension plan assets. The costs of the pension plans and other retirement benefits is actuarially determined using the projected benefit method based on the length of service and reflects management's best estimate of expected pension plan investment performance, salary escalation and retirement ages of employees. The return on the pension plan assets is based on the fair value of those assets. The obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments. The pension expense includes the costs of pension benefits earned during the current year, the interest cost on pension obligations, the return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. The amortization period covers the expected average remaining services lives of employees covered by the pension plan. The actual costs and projections may differ from management's estimates and any change would have a corresponding effect in the net earnings of the Fund.

Changes in Accounting Principles and Practices

Newly issued accounting standards by the Canadian Institute of Chartered Accountants relating to financial instruments, hedges and comprehensive income were adopted by the Fund effective January 1, 2007. As a result of these new standards, a new category, accumulated other comprehensive income, forms part of Unitholders' Equity and certain unrealized gains or losses on derivatives designated as cash flow hedges are reported in accumulated other comprehensive income until realization.

At December 31, 2007, accumulated other comprehensive income totaled $7.9 million and consisted of an unrealized gain of $7.9 million, net of future income taxes, related to a 16 MW per hour power swap with an expiry date of December 31, 2010. The Fund also has an interest rate swap of $60 million as at December 31, 2007 with a fair value of $0.02 million, net of future income taxes. The new accounting standard related to hedges requires the Fund to fair value the hedging item, with the changes recorded through comprehensive income for any hedges designated as cash flow hedges. Hence, there is no impact on earnings. The Fund's interest rate and power swaps have been designated as cash flow hedges as at December 31, 2007. The commodity swaps have been designated as fair value hedges with changes in fair value reported in net earnings. As at December 31, 2007, the effect to net earnings is negligible.

The recent enactment of Bill C-52 relating to the tax on income trusts had no additional impact on the future income tax liability. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability and, as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

There were no changes in Pembina's other principles or practices that affected the disclosure of or the accounting for its operations for the year ended December 31, 2007.

Future Accounting Changes

The CICA issued three new accounting standards; Handbook Section 1535 "Capital Disclosures", Handbook Section 3862 "Financial Instruments – Disclosures" and Handbook Section 3863 "Financial Instruments – Presentation". The Fund will adopt these standards on January 1, 2008. The new standards require disclosure of qualitative and quantitative information on financial instruments and additional disclosure on the Fund's management of capital and the risks associated with financial instruments

Trust Unit Information

(in thousands of dollars, except where noted)	March 3, 2008 [1]	**December 31, 2007**	December 31, 2006
Trading volume and value			
Total volume *(Trust Units)*	9,281,534	**53,754,138**	64,731,227
Average daily volume *(Trust Units)*	215,850	**213,310**	257,893
Value traded	$ 157,549	**$ 883,762**	$ 1,062,344
Trust Units outstanding at year end *(Trust Units)*	132,773,254	**132,541,536**	126,217,888
Year end unit trading price *($ per Unit)*	$ 16.97	**$ 17.54**	$ 15.83
Market value *(for December 31)*			
Trust Units	$ 2,253,158	**$ 2,324,769**	$ 1,998,029
7.50% convertible debentures [2]			23,406
7.35% convertible debentures [3]	65,543	**67,770**	80,307
Market capitalization	$ 2,318,701	**$ 2,392,539**	$ 2,101,742
Senior debt	814,178	**786,708**	553,369
Total enterprise value	$ 3,132,879	**$ 3,179,247**	$ 2,655,111

[1] *Based on 43 trading days from January 1 to March 3, 2008 inclusive.*

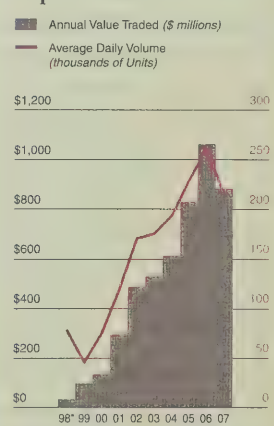
[2] *Matured on June 30, 2007.*

[3] *$49.8 million principal amount of 7.35% convertible debentures outstanding at a market price of $136.00 at December 31, 2007.*

The Fund's Trust Units, along with the 7.35% convertible debentures, are publicly traded on the Toronto Stock Exchange. The total market value of the Fund's outstanding securities was $3.2 billion at December 31, 2007. Issued and outstanding Trust Units of the Fund rose to 132.5 million by the end of 2007, an increase of 6.3 million from 2007. During 2007, 2.6 million Trust Units were issued through debenture conversions, 3.2 million Trust Units were issued under the DRIP (which is described below) and 0.6 million Trust Units were issued upon the exercise of Trust Unit options.

Pembina's ratio of total debt to total enterprise value increased from 24 percent at the end of 2006 to 26 percent as at December 31, 2007. Management remains satisfied that the leverage currently employed in Pembina's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

Liquid Investment



* *PIF.UN commenced trading as a fully paid Trust Unit on October 23, 1998.*

Since its launch in 2003, the plan has attracted significant Unitholder interest and has raised $213.9 million. Pembina's DRIP plan raised $47.2 million in 2007, compared to $76.6 million in 2006. As of June 30, 2007, Pembina has prorated its DRIP to zero as its bank facilities offer a lower cost of financing for the Fund as compared to equity investment. Pembina believes that it has sufficient bank facilities to fund current projects and may resume the plan in the future should it desire to raise new equity.

Data provided by our transfer agent indicates that non-resident holdings in the Fund totaled 20 percent at December 31, 2007. This level is within the 49 percent restriction on non-resident ownership in the Fund imposed by Pembina's Declaration of Trust and is consistent with guidelines under the Income Tax Act (Canada).

Risk Factors

The following is a summary of the primary risk factors identified by management that could potentially have a material impact on the financial results and operations of the Fund. For a full discussion of these and other risk factors affecting the business and operation of the Fund and its operating subsidiaries, readers are referred to the Fund's Annual Information Form, an electronic copy of which is available through the internet on Pembina's website at **www.pembina.com** or on the Fund's SEDAR profile at **www.sedar.com**.

Distributions

The Fund has announced its distribution objective for 2008 of $1.44 per Trust Unit. Management believes that continued robust operating results produced by Pembina's conventional assets, coupled with growth in its oil sands and midstream business segments, will continue to generate significant and sustainable cash flow that will support this level of cash distribution. However, there can be no assurance that this level of distribution will be achieved. The actual amount of distributions paid to Unitholders will depend upon numerous factors including, but not limited to, operating cash flow, general and administrative costs, debt repayment and service costs, taxes, capital expenditures, reclamation reserves, if any, and working capital requirements. Payments by Pembina, the principal operating subsidiary, to the Fund may be delayed or reduced by restrictions imposed by lenders, disruptions in services or the ability of Pembina, under certain circumstances, to delay interest payments on its senior secured notes for up to twelve months.

Debt Service

At the end of 2007, Pembina had exposure to floating interest rates on $265 million in debt. A 0.25 percent change in short-term interest rates would have an annualized impact of $0.7 million on net cash flows. Variations in interest rates and scheduled principal repayments, if required under the terms of the banking agreements as described in Note 7 to the Fund's 2007 Consolidated Financial Statements, could result in significant changes in the amounts required to be applied to debt service before payment of any amounts by the operating subsidiaries to the Fund. Certain covenants in the agreements with the lenders may also limit payments by the operating subsidiaries to the Fund. Although it is believed that the existing credit facilities are sufficient, there can be no assurance that the amount will

be adequate for the financial obligations of Pembina or that additional funds can be obtained. Holders of senior secured notes have been provided with security over substantially all of the assets of Pembina. If Pembina becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, the lenders will rank senior to the Fund in respect of payments made by the operating subsidiaries on securities or unsecured promissory notes that are held by the Fund. As a result, cash distributions from the Fund to Unitholders would be adversely affected by such circumstances.

Capital Resources

Future expansions of the pipeline assets, acquisitions and other capital expenditures will be financed from sources such as cash generated from operations, borrowing or issuance of additional Trust Units or other securities of the Fund or Pembina. There can be no assurance that sufficient capital will be available on terms that would be considered as acceptable to the Fund to support these expansions or other required capital expenditures. Should external sources of capital become limited or unavailable, Pembina's ability to make the necessary or desirable capital expenditures could be severely restricted. To the extent Pembina is required to use cash flow to finance capital expenditures the level of cash distributed to Unitholders could be reduced.

Reserve Replacement and Throughput

Tariff revenues are based upon a variety of tolling arrangements, including deliver or pay contracts, costs of service arrangements and market-based tolls. As a result, certain tariff revenues are heavily dependent upon throughput levels. Future throughput on Pembina's conventional crude oil and NGL pipelines and replacement of oil and gas reserves in service areas will be dependent upon the success of producers operating in those areas exploiting their existing reserve bases as well as exploring for and developing additional reserves which may be further impacted by proposed changes to Alberta royalties. Without reserve additions or expansion of the service areas, throughput on the pipelines will decline over time as reserves are depleted. In addition, as reserves are depleted or if the product prices for crude oil, condensate and NGL's decline, production costs may increase relative to the remaining value of the reserves in place, causing producers to shut-in production, seek out lower cost alternatives for transportation to market or pressure Pembina to reduce the effective tariffs. The oil and natural gas price volatility that the industry has experienced over the past number of years is due to supply and demand factors, including weather and general economic conditions as well as economic, political and other conditions in other oil and natural gas producing regions, not necessarily located in western Canada, all of which are beyond the Fund's control.

Environmental Costs and Liabilities

Pembina is subject to Canadian Federal and Alberta and British Columbia Provincial laws and regulations relating to environmental protection and operational safety. While Pembina believes that that the current operation of its pipeline systems is in compliance with all applicable environmental and safety regulations, there can be no assurance that substantial cost or liability will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulation and enforcement or claims for damages to persons or

property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina were not able to recover the resulting costs through insurance or tariffs, cash flow available to make cash distributions to Unitholders or to service obligations under the convertible debentures would be adversely affected. While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of this insurance may limit its availability in respect of certain occurrences unless they are discovered within fixed timed periods. These periods can range from 72 hours to seven days. If Pembina is unaware of or is unable to locate the problem within the relevant time period, insurance coverage may not be available. However, Pembina is of the opinion that it has adequate leak detection systems in place to detect and monitor a significant spill of product.

Competition to the Pipeline Operations

Pembina competes with other pipelines in its service areas, other transporters of crude oil and NGL's, and other midstream businesses. The introduction of competing transportation alternatives into Pembina's service areas could potentially have the impact of limiting Pembina's ability to adjust tolls as it may deem necessary. Additionally, potential pricing differentials on the components of NGL's may result in these components being transported by competing gas pipelines. Pembina believes that it is prepared for and determined to meet these existing and potential competitive pressures.

Regulation

Legislation in Alberta and British Columbia exists to ensure that producers have fair and reasonable opportunities to produce, transport, process and market their reserves. In Alberta and British Columbia, the Alberta Energy and Utilities Board and the British Columbia Utilities Commission respectively, may, upon application and following a hearing (and in Alberta with the approval of the Lieutenant Governor in council), declare the operator of a pipeline a common carrier of oil or natural gas and, as well, must not discriminate between producers who seek access to the pipeline. Producers and shippers may also apply to the regulatory authorities for a review of tariffs if they prove the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied with an application to have tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the provincially regulated BC gathering pipelines, while considered remote, could result in toll levels that are not considered fair and reasonable by Pembina and could impair the economic operation of such regulated pipeline systems.

Pipeline Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline assets at the end of their economic life, and such abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with Pembina's pipeline systems including, in respect of certain pipeline systems, linefill would be available to offset abandonment costs.

However, it is not possible to definitively predict abandonment costs since they will be a function of regulatory requirements at the time and the value of Pembina's assets, including linefill, may then be more or less than the abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures.

Operational Hazards

Pembina's operations are subject to the customary hazards of the pipeline transportation business. The operations of Pembina's pipelines could be disrupted by natural disasters or other events beyond Pembina's control. A casualty occurrence could result in the loss of equipment or life as well as injury and property damage. Pembina carries insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences.

Structural Integrity of the Storage Facility

Three of the five ethylene storage caverns are due for regulatory workover including a mechanical integrity test (MIT) in 2010. Successful completion of the workover and passing of the MIT would allow the caverns to operate for another 10 years, with a mandatory mid term online MIT evaluation required at the end of fifth year (2015). The other two caverns had successfully completed regulatory workover and MIT in 2006 and 2007. The joint owners of this facility are examining alternative capacity options available on the property. If alternative capacity is not developed failure of these caverns may result in them being taken out of service resulting in a reduction in storage capacity on which revenues are based and decrease cash flow available for distribution.

Credit Risk

Pembina is subject to credit risk arising out of both its pipeline and midstream operations. A majority of Pembina's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Historically, Pembina has collected its accounts receivable in full. However, it maintains lien rights on the oil and NGL's that are in Pembina's custody during the transportation of such products on the pipeline as well as the right of offset for single shipper operations. It also actively reviews credit worthiness of all new shippers on its systems and regularly reviews the credit status of current shippers.

Pricing

Terminalling, storage and hub services are dependent upon the ability of Pembina to take advantage of pricing differentials for various qualitative factors in the crude oil and NGL streams. These differentials are based primarily on product density and sulphur content and are subject to normal market forces. Pembina actively monitors the market conditions and the stream content and quality to ensure that it is not subject to undue risk or exposure should there be a significant change in either price or quality factors.

Selected Quarterly Information

	2007			
	Q4	Q3	Q2	Q1
Revenues [1] *(in thousands of dollars, except where noted)*	**$ 101,234**	**$ 98,716**	**$ 93,426**	**$ 96,359**
Operating expenses	**35,885**	**31,833**	**30,718**	**31,192**
EBITDA [2]	**54,518**	**58,660**	**53,676**	**56,271**
Cash flow from operations	**48,788**	**51,666**	**42,180**	**46,907**
Net earnings [3]	**34,981**	**37,903**	**35,492**	**33,929**
Net earnings per Trust Unit *($ per Unit)*:				
Basic	**0.26**	**0.29**	**0.27**	**0.27**
Diluted	**0.26**	**0.28**	**0.27**	**0.26**
Distributed cash [2]	**47,684**	**46,198**	**42,890**	**42,098**
Distributed cash per Trust Unit *($ per Unit)*: [2]				
Basic	**0.3600**	**0.3500**	**0.3300**	**0.3300**
Diluted	**0.3521**	**0.3393**	**0.3211**	**0.3219**
Trust Units outstanding *(thousands)*:				
Weighted average *(basic)*	**132,454**	**131,994**	**129,966**	**127,568**
Weighted average *(diluted)*	**137,243**	**136,850**	**135,274**	**135,206**
End of period	**132,542**	**132,065**	**131,388**	**128,247**

	2006			
	Q4	Q3	Q2	Q1
Revenues [1] *(in thousands of dollars, except where noted)*	$ 88,062	$ 85,326	$ 80,924	$ 81,506
Operating expenses	32,933	29,570	28,132	29,970
EBITDA [2]	49,626	50,261	39,554	44,732
Cash flow from operations	41,111	32,430	26,055	44,264
Net earnings	27,231	24,563	16,940	20,151
Net earnings per Trust Unit *($ per Unit)*:				
Basic and diluted	0.22	0.20	0.14	0.17
Distributed cash [2]	37,687	36,461	34,567	33,570
Distributed cash per Trust Unit *($ per Unit)*: [2]				
Basic	0.3000	0.2950	0.2850	0.2850
Diluted	0.2956	0.2902	0.2803	0.2786
Trust Units outstanding *(thousands)*:				
Weighted average *(basic)*	125,625	123,576	121,289	117,784
Weighted average *(diluted)*	132,789	131,502	130,036	129,692
End of period	126,218	124,262	122,030	119,816

[1] *Net of product purchases.*

[2] *Refer to "Non-GAAP Measures" on page 14.*

[3] *Net earnings in previous quarters has changed due to refinements to revised estimated lives of depreciable assets effective January 1, 2007.*

Pembina's stable operations typically produce limited variability in quarterly results. However, continued growth in Pembina's underlying asset base and significant growth in the midstream business has resulted in increased revenues, expenses and cash flows over the last eight quarters. Variations in this trend result from one-time events and expected seasonal factors which impact pipeline receipts and operating expenses, occurring most frequently during the second quarter of each year. Such events and factors include, but are not limited to, regularly scheduled facilities maintenance, road bans and weather-related impact on receipts and spending patterns.

Fourth Quarter Results

Net earnings for the fourth quarter of 2007 were $35.0 million compared with $27.2 million in the fourth quarter of 2006. The $7.8 million increase in net earnings reflects a $4.5 million decrease in depreciation expense due to revised estimated useful lives of pipeline assets and solid operating performance of all business segments.

Cash flow from operations for the fourth quarter of 2007 was $48.8 million, an increase of $7.7 million from 2006. The increase is primarily due to improved operating income on portions of our conventional pipeline systems resulting in increased revenues and the growth in midstream operations throughout 2007. Cash from financing activities in the fourth quarter of 2007 of $48.2 million consisted of borrowings under the bank facilities to finance the Horizon Pipeline offset by distributions to Unitholders. Cash used in investing activities increased from $60.5 million in 2006 to $80.0 million in the fourth quarter of 2007 as a result of the Horizon construction project.

Additional Information

Additional information relating to Pembina Pipeline Income Fund, including the Fund's 2007 Annual Information Form and financial statements, can be found on the Fund's profile on the SEDAR website at **www.sedar.com** or at **www.pembina.com**.

Management's Responsibility

The consolidated financial statements of Pembina Pipeline Income Fund (the "Fund") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Pembina Pipeline Corporation (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising their responsibilities through the Audit Committee, which is composed of three non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

KPMG LLP, the independent auditors, have audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

Peter D. Robertson
Vice President Finance and Chief Financial Officer
Pembina Pipeline Corporation

March 5, 2008

Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Pembina Pipeline Income Fund as at December 31, 2007 and 2006 and the consolidated statements of earnings and deficit, comprehensive income and cash flows for years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 5, 2008

Consolidated Balance Sheets

December 31, 2007 and 2006 (In thousands of dollars)	**2007**	2006
Assets		
Current assets:		
Cash	**$ 16,736**	$ 1,861
Accounts receivable and other	**56,177**	44,947
	72,913	46,808
Property, plant and equipment *(note 5)*	**1,524,887**	1,257,729
Goodwill and other *(note 6)*	**358,212**	371,667
Derivative financial instruments *(note 2 and note 16)*	**10,796**	
	$ 1,966,808	$ 1,676,204
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 59,485**	$ 37,411
Distributions payable to Unitholders	**15,905**	12,622
Current portion of long-term debt *(note 7)*	**6,422**	5,973
Current portion of convertible debentures *(note 8)*		15,133
	81,812	71,139
Long-term debt *(note 7)*	**772,364**	547,396
Convertible debentures *(note 8)*	**47,702**	61,679
Asset retirement obligations *(note 10)*	**62,236**	29,889
Future income taxes *(note 11)*	**93,957**	113,617
	1,058,071	823,720
Unitholders' equity:		
Trust Units *(note 12)*	**1,320,692**	1,235,809
Deficit	**(419,890)**	(383,325)
Accumulated other comprehensive income *(note 2)*	**7,935**	
	908,737	852,484
Commitments *(note 17)*		
	$ 1,966,808	$ 1,676,204

On behalf of the Board of Pembina Pipeline Corporation:

Lorne B. Gordon
Director

Robert F. Taylor
Director

March 5, 2008

See accompanying notes.

Consolidated Statements of Earnings and Deficit

Years Ended December 31, 2007 and (In thousands of dollars, except per Trust Unit amounts)		2007		2006
Revenues:				
Conventional pipelines	$	**249,056**	$	222,957
Oil sands infrastructure		**61,714**		62,120
Midstream business		**194,018**		55,801
		504,788		340,878
Expenses:				
Operations		**129,628**		120,605
Product purchases		**115,053**		5,060
General and administrative		**30,643**		24,013
Management fee				1,027
Depreciation and amortization *(note 5 and note 6)*		**66,450**		85,619
Accretion on asset retirement obligations *(note 10)*		**2,665**		1,395
Internalization of management contract *(note 3)*		**4,700**		6,000
Other		**1,639**		
		350,778		243,719
Earnings before interest and taxes		**154,010**		97,159
Interest on long-term debt *(note 7)*		**(29,456)**		(24,880)
Interest on convertible debentures *(note 8)*		**(4,769)**		(7,700)
Earnings before taxes		**119,785**		64,579
Income tax reduction *(note 11)*		**(22,520)**		(24,306)
Net earnings		**142,305**		88,885
Deficit, beginning of year		**(383,325)**		(329,925)
Distributed cash		**(178,870)**		(142,285)
Deficit, end of year	$	**(419,890)**	$	(383,325)
Earnings per Trust Unit – basic *(note 14)*	$	**1.09**	$	0.73
Earnings per Trust Unit – diluted *(note 14)*	$	**1.06**	$	0.73

See accompanying notes.

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2007		2007
Net earnings for the period	$	**142,305**
Other comprehensive income:		
Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of $0.4 million		**2,887**
Total comprehensive income	$	**145,192**
Accumulated other comprehensive income *(note 2)*:		
Opening balance, net of tax of $2.4 million	$	**5,048**
Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of $0.4 million		**2,887**
Balance, end of period, net of tax of $2.9 million	$	**7,935**

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31, 2007 and 2006 (In thousands of dollars)	2007	2006
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 142,305	$ 88,885
Items not involving cash:		
Depreciation and amortization	66,450	85,619
Accretion on asset retirement obligations	2,665	1,395
Future income tax reduction	(22,520)	(24,306)
Employee future benefits expense	4,777	4,620
Trust Unit based compensation expense	1,232	1,135
Other	1,099	363
Employee future benefits contributions	(3,759)	(9,000)
Changes in non-cash working capital *(note 15)*	(2,709)	(4,851)
Cash flow from operations	189,540	143,860
Financing activities:		
Bank borrowings	239,113	59,862
Issue of unsecured senior notes, net of issue costs		194,842
Repayment of long-term debt		(165,000)
Repayment of senior secured notes	(5,973)	(5,555)
Issue of Trust Units on exercise of options *(note 12)*	7,372	3,271
Issue of Trust Units under Distribution Reinvestment Plan *(note 12)*	47,170	76,639
Distributions to Unitholders – current year	(162,965)	(129,664)
Distributions to Unitholders – prior year	(12,622)	(9,966)
	112,095	24,429
Investing activities:		
Capital expenditures	(300,312)	(168,955)
Changes in non-cash working capital *(note 15)*	13,552	9,838
	(286,760)	(159,117)
Change in cash	14,875	9,172
Cash (bank indebtedness), beginning of year	1,861	(7,311)
Cash, end of year	$ 16,736	$ 1,861
Other cash disclosures:		
Interest on long-term debt paid	$ (40,929)	$ (25,698)
Interest on convertible debentures paid	$ (4,412)	$ (6,740)
Interest capitalized	$ (9,895)	$ (4,014)
Taxes paid	$	$ (419)

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006 (Tabular amounts stated in thousands of dollars, except per Trust Unit amounts)

Note 1. Structure of the Fund:

Pembina Pipeline Income Fund (the "Fund") is an open-ended, single purpose trust formed under the laws of the Province of Alberta pursuant to a declaration of trust. The Fund commenced operations in October 1997 when it acquired all of the shares and unsecured promissory notes of Pembina Pipeline Corporation ("Pembina") which owns or has interests in pipelines and related facilities to deliver crude oil, condensates and natural gas liquids in Alberta and British Columbia, and other energy related infrastructure.

The Fund makes monthly distributions of its distributable cash to Unitholders of record on the last day of each calendar month. The amount of the distributions per Trust Unit are equal to the pro-rata share of interest income (and in certain circumstances repayment of principal) on the Pembina notes and dividends (and in certain circumstances repayment of capital) on the Pembina shares less expenses of the Fund and cash redemptions of Trust Units.

Pursuant to the Fund's distribution policy, it will pay interest, principal, dividends and capital, subject to retaining an appropriate distribution reserve, satisfying its financing covenants, making loan repayments, and funding future removal and site restoration expenditures. Pembina's routine operations are expected to be funded from available cash while ongoing development, expansions and acquisitions of pipeline and other assets and related facilities are expected to be funded primarily through borrowings or issuance of additional Trust Units.

Note 2. Significant Accounting Policies:

The preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles for non rate-regulated entities. Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Regulation

The pipeline systems in Alberta and British Columbia are subject to the respective provincial utilities board authority over matters such as construction, rates and rate setting agreements with customers. Pipelines crossing provincial borders are also subject to the authority of the National Energy Board. The Alberta pipelines generally operate under market tolling arrangements and the utilities board will not review rates unless it receives a complaint. Rates on the British Columbia pipelines require provincial utility board approval and certain period costs are deferred and recovered in tolls over a five year period as directed by the regulator.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary companies and partnerships, and its proportionate share of the accounts of joint ventures and partnerships. The Fund does not utilize off balance sheet arrangements with unconsolidated entities.

Cash and cash equivalents

Short term investments with original maturities of ninety days or less are considered to be cash equivalents and are recorded at cost which approximates market value.

Property, plant and equipment

Development capital expenditures are capitalized at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of large expansions.

Pipeline assets and facilities are generally depreciated using the straight line method over 25 to 30 years or declining balance method at rates ranging from 3% to 10% per annum. Oil sands and storage assets and facilities are depreciated using the straight line method at annual rates ranging from 3% to 5%. These rates are established to depreciate original costs over the economic lives or contractual duration of the related assets.

Goodwill

Goodwill represents the excess, if any, of the consideration paid over the fair value of identifiable assets and liabilities acquired in a business combination, and often arises as a result of the recognition of a future income tax liability related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but, at a minimum, is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of goodwill is based on discounted cash flows.

Other intangibles

Other intangibles acquired individually or as part of a group of assets are recognized and measured at cost. Other intangibles are amortized using the straight line method over the 20 year contractual duration of the related asset.

Impairment of long-lived assets

Management reviews property, plant and equipment and other intangibles to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. If impairment has occurred, an impairment charge to earnings is recognized for the amount the carrying value of the asset exceeds its estimated fair value based on discounted future cash flows.

Employee pension plans

A subsidiary of the Fund maintains a non-contributory defined benefit pension plan covering its employees along with an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The cost of pension benefits earned by employees in the defined benefit plans are charged to earnings as services are rendered using the projected benefit method pro-rated on service. The cost of the defined benefit plans reflects management's estimate of the rate of return on pension plan assets, salary escalations, mortality and other factors affecting the payments of future benefits. Adjustments arising out of plan amendments, changes in assumptions and experienced gains and losses are normally amortized, using the corridor method, over the expected remaining average service life of the employee group. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. The market value of assets is used for all calculations.

Asset retirement obligations

The fair value of the estimated asset retirement obligations are recognized in the period in which they are incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The fair value is recorded as a long term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual costs incurred upon settlement and the recorded liability is recognized as a gain or loss in earnings.

Income taxes

Income taxes, based on current legislation, are recorded on the liability method of accounting as the subsidiaries are projected to be taxable in the future. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Accordingly, no provision for income taxes on the earnings of the Fund have been made.

Future income tax liabilities of subsidiaries are recognized on acquisitions and reflect the difference between the book value and tax value of capital assets at future statutory income tax rates. On recognition, an equivalent amount is allocated to property, plant and equipment or, if the consideration paid approximates the estimated depreciated replacement cost, then the allocation is to goodwill. The future income tax reduction represents the change in these amounts and other timing differences during the year.

The recent enactment of Bill C-52 relating to trust tax has no additional impact on the future income tax liability. The Fund has no timing differences other than those if its subsidiaries that are fully reflected in the future income tax liability and, as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

Revenue recognition

Pipeline transportation revenues are recorded when the services have been provided. For rate or contractually regulated pipeline operations, revenue is recognized in a manner that is consistent with the underlying rate design as mandated by agreement or regulatory authority.

Certain pipelines have been designated single-shipper lines where producers must either sell their product at the inlet point or sell their product at the inlet point and repurchase it at the delivery point for the inlet price paid plus an agreed-upon differential on a pre-arranged basis. The buy/sell transactions are recorded when the services have been provided and recognized on a net basis in the statement of earnings. Product purchases for terminalling, storage and hub services are recognized on a gross basis in the statement of earnings. Product sales are recognized when the product is delivered to a customer.

Storage revenue is recognized when the service is provided consistent with the rate contracted with the customer.

Unit based compensation

The Fund uses the fair value method to account for the compensation cost of options granted pursuant to the unit option plan described in note 13. Under the fair value method, the options are measured at fair value at the grant date and the cost is recognized in earnings over the vesting period. Consideration paid on exercise of the options is credited to Unitholders' equity.

The Fund has a restricted Trust Unit plan as described in note 13. As participants in this plan are entitled to a cash payment on a fixed vesting date, the Fund is using the intrinsic value method to account for the compensation cost of this plan. Changes in intrinsic value result in a change in the measurement of compensation cost. As awards vest at the end of the vesting period, compensation cost is recognized as incurred.

Comprehensive income

Effective January 1, 2007, the Fund adopted the new Canadian accounting standards relating to comprehensive income (Section 1530). The Fund adopted this standard prospectively by adjusting opening accumulated other comprehensive income with no restatement of prior periods.

CICA HB Section 1530 introduced comprehensive income, which consists of net income and other comprehensive income such as revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income but not in net earnings. The Fund's consolidated financial statements now include a Consolidated Statement of Comprehensive Income. Within the Consolidated Statement of Comprehensive Income, the Fund has included an accumulated comprehensive income continuity which shows the cumulative changes in other comprehensive income and the period end balance is presented as a new category in Unitholders' equity. The other comprehensive income is comprised of the unrealized gains on derivative financial instruments designated as cash flow hedges.

At January 1, 2007 all of the derivative financial instruments in the Fund were designated as cash flow hedges. The adoption of this standard resulted in an opening adjustment to accumulated other comprehensive income of $5 million (net of tax of $2.4 million) at January 1, 2007 to record the fair value of the Fund's interest rate swap and power swap hedge. Prior to January 1, 2007, these swaps qualified as accounting hedges and were accounted for on an accrual basis. The new rules require the recording of hedging derivatives at fair value. The unrealized gains and losses in the fair value of cash flow hedging instruments are recorded in other comprehensive income, net of tax, until recognized in earnings. The fair value of the hedges are recorded on the Balance Sheet as assets with changes in the fair value reflected in accumulated comprehensive income in Unitholders' equity with no impact on net earnings for the period. Gains and losses on derivatives that are not designated as cash flow hedges and any gains and losses after the termination of hedging relationships are charged to earnings as the arise.

The types of hedging relationships that qualify for hedge accounting have not changed under the new rules. The Fund will continue to designate hedges as either cash flow hedges or fair value hedges and record the receivable or payable on the derivative as an adjustment to power costs, interest and fee income in the Consolidated Statement of Earnings over the life of the hedge.

Financial Instruments – recognition and measurement

Effective January 1, 2007, the Fund adopted the new accounting policies relating to new accounting standards for financial instruments (Section 3855 and 3861) and hedges (Section 3865). The Fund adopted these standards prospectively by adjusting opening accumulated other comprehensive income with no restatement of prior periods.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, financial derivatives and certain non-financial derivatives. All financial instruments are required to be measured at fair value upon initial recognition. Measurement in subsequent periods depends on whether the financial instrument is classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities".

The Fund classifies its financial instruments as follows; cash is designated as "held-for-trading" and is measured at carrying value, which approximated fair value due to the short term nature of these instruments. Accounts receivable and other are designated as "loans and receivables" and are measured at amortized cost. The derivative financial instruments are designated as cash flow hedges with changes in fair value recorded in other comprehensive income. Accounts payable and accrued liabilities, distributions payable, long term debt and convertible debentures are all designated as "other liabilities".

The standard also requires the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost. In addition, an entity must select an accounting policy for either expensing transaction issue costs as incurred or applying them against the carrying value of the related asset or liability. Effective January 1, 2007, the Fund reclassified transaction costs (deferred financing fees) related to long-term debt previously disclosed in "goodwill and other" to "long term debt". These reclassified costs amount to $7.9 million as at December 31, 2007.

Risk management

The Fund uses derivative financial instruments to manage exposure to interest rates, power costs and crude oil or natural gas liquids. The Fund does not use financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions for all financial instruments designated as cash flow hedges. The Fund also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Note 3. Internalization of Management Contract:

Effective June 30, 2006, the Fund acquired all of the outstanding common shares of Pembina Management Inc. (Manager), the manager of the Fund. Total consideration for the transaction consisted of an initial cash payment of $6 million and a contingent deferred payment payable in 2009 that is linked to future growth in distributable cash per Trust Unit of the Fund. If the future cumulative distributable cash in the period from January 1, 2006, to December 31, 2008 does not exceed $3.42 per Trust Unit ($1.14 per Trust Unit per year), the deferred amount is zero. Every approximate 10 cent per Trust Unit increase in cumulative distributable cash over $3.42 per Trust Unit results in a $1 million increase in purchase price to a maximum of $15 million, which is converted into notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of $15.87 (the closing price). The purchase price will also be adjusted by the distributions payable on the notional Trust Units for the period January 1, 2006 to December 31, 2008, and the change in the value of the Fund's Trust Units from the closing price. Except in certain limited circumstances, no further payments under the share purchase agreement are payable until 2009. However assuming the 2008 distributable cash is similar to the combined 2006 and 2007 distributable cash, the potential deferred payment in 2009 would be $9.5 million, with $4.7 million expensed in 2007.

Prior to the acquisition, Pembina, together with the other operating subsidiaries of the Fund, was managed by the Manager pursuant to a management agreement. As compensation for its services, the Manager was entitled to:

(a) a management fee equal to 0.9825% of distributed cash;

(b) an acquisition fee of 0.655% of the purchase price of any material pipeline asset or facility acquired or swapped;

(c) a disposition fee of 0.49125% of the sales price of any material pipeline asset or facility sold; and

(d) an annual incentive fee calculated as a percentage of distributed cash per Trust Unit as follows: 4.9125% of such distribution equal to or in excess of $1.05 per Trust Unit annually but less than $1.09 per Trust Unit annually; 6.55% of such distribution equal to or in excess of $1.09 per Trust Unit annually but less than $1.19 per Trust Unit annually; and 7.86% of such distribution equal to or in excess of $1.19 per Trust Unit annually.

In 2007, there were no management fees paid to the Manager (2006: $1.0 million).

Prior to the acquisition and pursuant to an administration agreement, as compensation for its administrative services to the Fund, the Manager received an annual fee of $20,000.

Note 4. Business Segments:

The Fund conducts its operations through three operating segments: conventional pipelines, oil sands infrastructure and midstream business.

Conventional pipelines consists of the tariff based operations of pipelines and related facilities to deliver crude oil, condensates and natural gas liquids in Alberta and British Columbia.

Oil sands infrastructure consists of the Syncrude Pipeline, the completed Cheecham Lateral and the Horizon Pipeline. As at December 31, 2007, the Syncrude Pipeline and Cheecham Lateral were operational. This operating segment consists of pipelines and related facilities to deliver synthetic crude oil produced from oil sands under long-term cost-of-service arrangements.

Midstream business consists of the Fund's direct and indirect interest in a storage operation and direct interests in terminalling, storage and hub services under a mixture of short, medium and long-term contractual arrangements.

The financial results of the business segments are as follows:

	Conventional Pipelines [1]	Oil Sands Infrastructure [2]	Midstream Business	Total
2007				
Revenues:				
Pipeline transportation	$ 249,056	$ 61,714	$	$ 310,770
Terminalling, storage and hub services			194,018	194,018
Revenue before expenses	249,056	61,714	194,018	504,788
Expenses:				
Operations	97,289	23,720	8,619	129,628
Product purchases			115,053	115,053
General and administrative [3]	29,337	1,306		30,643
Depreciation and amortization	45,497	11,970	8,983	66,450
Accretion on asset retirement obligations	2,521	144		2,665
Internalization of management contract	4,700			4,700
Other	1,639			1,639
	180,983	37,140	132,655	350,778
Earnings before interest and taxes	$ 68,073	$ 24,574	$ 61,363	$ 154,010
Property, plant and equipment [2]	$ 801,277	$ 592,441	$ 131,169	$ 1,524,887
Goodwill and other	$ 206,574	$ 28,300	$ 123,338	$ 358,212

[1] Less than 6% of conventional pipeline revenues are under regulated tolling arrangements.

[2] Included in property, plant and equipment are assets under construction for the Horizon Pipeline of $264.8 million.

[3] General and administrative expenses for midstream are included in operating expenses.

	Conventional Pipelines [1]		Oil Sands Infrastructure [2]		Midstream Business		Total
2006							
Revenues:							
Pipeline transportation	$	222,957	$	62,120	$	$	285,077
Terminalling, storage and hub services					55,801		55,801
Revenue before expenses		222,957		62,120	55,801		340,878
Expenses:							
Operations		89,860		24,839	5,906		120,605
Product purchases					5,060		5,060
General and administrative [3]		22,758		1,255			24,013
Management fee		1,027					1,027
Depreciation and amortization		66,593		10,069	8,957		85,619
Accretion on asset retirement obligations		1,327		68			1,395
Internalization of management contract		6,000					6,000
Other							
		187,565		36,231	19,923		243,719
Earnings before interest and taxes	$	35,392	$	25,889	$ 35,878	$	97,159
Property, plant and equipment [2]	$	751,975	$	382,973	$ 122,781	$	1,257,729
Goodwill and other	$	216,383	$	28,300	$ 126,984	$	371,667

[1] *Less than 5% of conventional pipeline revenues are under regulated tolling arrangements.*

[2] *Included in property, plant and equipment are assets under construction for the Horizon Pipeline of $49.7 million.*

[3] *General and administrative expenses for midstream are included in operating expenses.*

A summary of the Fund's interest in the Fort Saskatchewan Ethylene Storage Partnership as at December 31, 2007 is as follows:

		2007		2006
Current assets	$	**2,034**	$	1,852
Working capital		**2,034**		1,852
Property, plant and equipment		**91,508**		95,472
Goodwill and other intangibles		**123,338**		126,984
Future income taxes		**(50,874)**		(53,759)
Investment in partnership	**$**	**166,006**	$	170,549
Revenues	**$**	**24,372**	$	21,891
Expenses		**5,606**		4,208
Net earnings		**9,783**		8,726
Cash flow from operations	**$**	**18,766**	$	17,683

Note 5. Property, Plant and Equipment:

	Cost	Accumulated Depreciation	2007 Net	2006 Net
Conventional pipelines [1]	$ 1,355,888	$ (554,611)	$ **801,277**	$ 751,975
Oil sands infrastructure [2]	645,294	(52,853)	**592,441**	382,973
Midstream business	156,023	(24,854)	**131,169**	122,781
	$ 2,157,205	$ (632,318)	$ **1,524,887**	$ 1,257,729

(1) Includes $7 million of deferred integrity costs on the Western system amortized over five years at the direction of the regulator (2006: $7 million).

(2) Included in costs are assets under construction for Horizon Pipeline of $264.8 million (2006: Horizon Pipeline of $49.7 million) capitalized but not yet depreciated in 2007.

Depreciation expense in 2007 was $66.5 million (2006: $81.7 million).

Note 6. Goodwill and Other:

	Cost	Accumulated Amortization	2007 Net	2006 Net
Goodwill	$ 287,670	$	$ **287,670**	$ 287,670
Other intangibles	75,000	(16,662)	**58,338**	61,984
Deferred charges [1]				8,791
Pension asset *(note 9)*	12,204		**12,204**	13,222
	$ 374,874	$ (16,662)	$ **358,212**	$ 371,667

(1) Effective January 1, 2007, the Fund reclassified transaction costs (deferred financing fees) related to long-term debt previously disclosed in "Goodwill and Other" to "Long-Term Debt". These costs amount to $7.9 million as at December 31, 2007.

Amortization of deferred charges of $3.9 million was included in depreciation and amortization expense in 2006. In 2007, amortization of deferred charges (now classified with long-term debt) of $1.1 million (2006: $0.4 million) is included in interest on long-term debt expense with no amortization included in depreciation and amortization expense.

Note 7. Long-Term Debt:

	Available facilities at December 31, 2007	2007	2006
Bank loans:			
Operating facility	$ 30,000	$	$ 688
Revolving credit facility	500,000	**250,000**	10,000
Senior unsecured notes – Series A	175,000	**175,000**	175,000
Senior unsecured notes – Series B	75,000	**75,000**	75,000
Senior unsecured notes – Series C	200,000	**200,000**	200,000
Senior secured notes	86,708	**86,708**	92,681
	$ 1,066,708	**786,708**	553,369
Less current portion		**(6,422)**	(5,973)
Less deferred charges		**(7,922)**	
Balance December 31		$ **772,364**	$ 547,396

The bank facilities are syndicated facilities established with Canadian chartered banks. On July 24, 2007, the revolving credit facilities of Pembina Pipeline Corporation, the principal operating subsidiary of the Fund, were renewed for a period of five years to July 24, 2012 and the $30 million operating facility was extended to July 24, 2008. There are no repayments due over the term. Borrowings bear interest at either prime lending rates or based on banker's acceptance rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from 0.50% to 1.50%.

Series A senior unsecured notes bear interest at 5.99% payable semi-annually and are due June 15, 2014. Series B senior unsecured notes bear interest at the three month banker's acceptance rate plus 90 basis points payable quarterly in arrears and are due on June 22, 2009. Series C senior unsecured notes bear interest at 5.58% payable semi-annually and are due September 30, 2021. These notes are subject to the maintenance of certain financial ratios.

The $86.7 million senior secured notes are due 2017 and bear interest at 7.38% per annum, compounded semi-annually and payable monthly in arrears. Blended monthly payments of principal and interest of approximately $1 million are payable on the first day of each month through August 2017. These notes are subject to the maintenance of certain financial ratios, and are secured by a floating charge debenture on the assets of the Fund and its subsidiaries, guarantees of the subsidiaries and a pledge of the subsidiaries' shares.

The Fund had a $60 million interest rate swap outstanding on the floating senior debt, with an average rate of 4.56% and an average remaining term to expiration of 0.4 years. The Fund receives a floating rate and pays a fixed rate. The unrealized mark to market gain on the interest rate swap was $0.02 million as at December 31, 2007.

Scheduled payments of principal on the notes in the next five years are as follows (the renewed credit facilities have no repayments due over the term).

Year		Notes
2008	$	6,422
2009		81,904
2010		7,423
2011		7,981
2012		8,581
	$	112,311

Note 8. Convertible Debentures:

		8.25%		7.50%		7.35%		**Total**
Balance, January 1, 2006	$	8,000	$	23,842	$	126,198	**$**	**158,040**
Conversions		(8,000)		(8,709)		(64,519)		**(81,228)**
Balance, December 31, 2006				15,133		61,679		**76,812**
Conversions				(15,133)		(13,977)		**(29,110)**
Balance, December 31, 2007	$		$		$	47,702	**$**	**47,702**

The 8.25% convertible unsecured subordinated debentures matured on March 31, 2006.

The 7.5% convertible unsecured subordinated debentures matured on June 30, 2007.

The 7.35% convertible unsecured subordinated debentures mature on December 31, 2010, with interest payable semi-annually in arrears on June 30 and December 31. The debentures may be converted at the option of the holder at a conversion price of $12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund. The Fund may, at its option after June 30, 2006, elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The Fund did not allocate a portion of the convertible debentures to equity as the calculation of the equity component was not significant when such an allocation was based on an approximate interest rate that would have been applicable to the issuance of similar debt without the conversion features at the time the debentures were issued.

Note 9. Employee Future Benefits:

A subsidiary of the Fund maintains two non-contributory defined benefit pension plans covering its employees: a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. Benefits under the plans are based on the length of service and the final average best three years of earnings of the employee. Benefits paid out of the plans are not indexed.

The subsidiary funds these plans in accordance with government regulations by contributing to trust funds administered by an independent trustee. The funds are invested primarily in equities and bonds.

The Fund measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation is as at December 31, 2006.

Plan contributions totaled $3.8 million in 2007 (2006: $9 million).

Information about the defined benefit plan is as follows:

	2007	2006
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	**$ 78,282**	$ 72,768
Current service cost	**4,391**	3,878
Interest cost	**4,169**	3,693
Benefits paid	**(3,785)**	(5,588)
Actuarial loss	**(6,554)**	3,531
Accrued benefit obligation, end of year	**$ 76,503**	$ 78,282
Plan assets		
Fair value of plan assets, beginning of year	**$ 72,209**	$ 61,140
Actual return on plan assets	**542**	7,657
Employer contributions	**3,759**	9,000
Benefits paid	**(3,785)**	(5,588)
Fair value of plan assets, end of year	**$ 72,725**	$ 72,209
Funded status		
Deficit	**$ (3,778)**	$ (6,073)
Unamortized net actuarial loss	**18,265**	21,863
Unamortized transitional asset	**(2,283)**	(2,568)
Accrued benefit asset	**$ 12,204**	$ 13,222

Plan assets consist of:

Asset category	Percentage of plan assets	
Equity securities	**65%**	68%
Debt securities	**35%**	30%
Cash	**0%**	2%
Total	**100%**	100%

Less than 0.1% of the plan assets are invested in securities of the Fund.

The net benefit plan expense is as follows:

	2007	2006
Current service cost	**$ 4,391**	$ 3,878
Interest cost	**4,169**	3,693
Actual return on plan assets	**(542)**	(7,657)
Actuarial (gain) loss on accrued benefit obligation	**(6,554)**	3,531
Cost arising in the period	**1,464**	3,445
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	**(4,290)**	3,451
Actuarial losses (gains)	**7,888**	(1,993)
Transitional asset	**(285)**	(285)
Net benefit plan expense	**$ 4,777**	$ 4,618

Assumptions for the expense and accrued benefit obligation are as follows:

	2007	2006
Assumptions for expense		
Discount rate	**5.2%**	5.0%
Expected long-term rate of return on plan assets	**6.75%**	6.75%
Rate of compensation increase	**5.32%**	4.35%
Assumptions for accrued benefit obligation		
Discount rate	**5.6%**	5.2%
Rate of compensation increase	**5.10%**	5.32%

The Fund has a non-pension post employment benefit plan which has an unfunded benefit obligation of $0.9 million (2006: $1.8 million). In 2007 there was a plan expense of $0.3 million (2006: $0.3 million).

Note 10. Asset Retirement Obligations:

The Fund has estimated the net present value of its total asset retirement obligations based on a total future liability (adjusted for 5% inflation per annum) of $347 million (2006: $187 million). The obligations are expected to be paid over the next 50 years with substantially all being paid after 30 years. The Fund used credit adjusted risk free rates ranging from 5.97% to 6.27% to calculate the present value of the asset retirement obligations.

The property, plant and equipment of the Fund consists primarily of underground pipelines, above ground equipment facilities and storage assets. No amount has been recorded relating to the removal of the underground pipelines or the storage assets as the potential obligations relating to these assets cannot be reasonably estimated due to the indeterminate timing or scope of the asset retirement. As the timing and scope of retirement become determinable for these assets, the fair value of the liability and the cost of retirement will be recorded.

	2007	2006
Obligations, beginning of year	**$ 29,889**	$ 19,716
Change in obligation estimate	**29,682**	8,778
Accretion expense	**2,665**	1,395
Obligations, end of year	**$ 62,236**	$ 29,889

Note 11. Income Taxes:

The components of the subsidiaries' future income tax liability are as follows:

	2007	2006
Difference between book values and tax values of:		
Property, plant and equipment	**$ 91,699**	$ 96,992
Intangibles	**11,413**	13,686
Taxable limited partnership income deferral	**46,197**	41,662
Asset retirement obligation	**(15,559)**	(8,668)
Deferred revenue	**(1,106)**	(2,423)
Benefit of loss carry-forwards	**(43,954)**	(29,393)
Financial instruments designated as hedges	**2,861**	
Other	**2,406**	1,761
	$ 93,957	$ 113,617

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Fund's earnings before taxes. This difference results from the following items:

	2007	2006
Earnings before taxes	**$ 119,785**	$ 64,579
Combined statutory rate	**32.12%**	32.5%
Income taxes at the statutory rate	**38,475**	20,988
Increase (decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	**(51,931)**	(38,907)
Tax rate changes on future income tax balances	**(4,439)**	(14,344)
Interest on convertible debentures	**1,532**	2,503
Non-deductible items	**1,635**	2,277
Other	**(7,792)**	3,177
Income taxes	**$ (22,520)**	$ (24,306)

On October 31, 2006, the Federal Government announced a proposed trust taxation of 31.5% of distributions which may be effective January 31, 2011 that may impact the Fund's current and future income taxes. The recent enactment of Bill C-54 relating to the income trust tax has no additional impact on the future income tax liability. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability of $94.0 million and, as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

Note 12. Trust Units:

The Fund is authorized to create and issue an unlimited number of Trust Units.

	Trust Units	Amount
Balance, January 1, 2006	113,897,002	$ 1,073,537
Exercise of Trust Unit options	276,317	3,271
Debenture conversions	7,131,696	81,227
Distribution Reinvestment Plan	4,912,873	76,639
Contributed surplus		1,135
Balance, December 31, 2006	126,217,888	1,235,809
Exercise of Trust Unit options	564,399	7,371
Debenture conversions	2,644,451	29,110
Distribution Reinvestment Plan	3,114,798	47,170
Contributed Surplus *(note 13)*		1,232
Balance, December 31, 2007	**132,541,536**	**$ 1,320,692**

Trust Units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 95% of the average market price of the Trust Units during a 10 day period commencing immediately after the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month shall not exceed $250,000. To the extent that a Unitholder is not entitled to receive cash upon the redemption of the Trust Units, the redemption price shall be satisfied by way of the Fund distributing a pro-rata number of Pembina notes, shares or securities of other businesses, if any, acquired from time to time.

A Unitholders' rights plan was approved by the Unitholders on April 28, 2005 for a further three year period. If a bid to acquire control of the Fund is made, the plan is designed to give the board of directors time to consider alternatives to allow Unitholders to receive full and fair value for their Trust Units. In the event that a bid, other than a permitted bid, is made, Unitholders become entitled to exercise rights to acquire Trust Units of the Fund at 50% of market value.

The Fund has adopted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"). This Plan allows participants an opportunity, under the distribution reinvestment component of the plan, to reinvest distributions into Trust Units at a five percent discount to a weighted average market price or, alternatively, under the premium distribution component of the Plan, to realize two percent more cash on their distributions. Eligible Unitholders can also make optional Trust Unit purchases at the weighted average market price. As of June 30, 2007, the Fund has prorated its DRIP to zero as its bank facilities offer a lower cost of financing for the Fund as compared to equity investment.

Note 13. Unit-Based Compensation:

The Fund has an option plan under which directors, officers and employees are eligible to receive options. The number of Trust Units reserved for issuance at December 31, 2007 is 6,892,725 representing 2,607,376 options issued and exercisable and 1,348,633 options issued and exercisable on or after their vesting date of November 30, 2008. 2,936,716 options are reserved for future grants.

In 2007, the directors approved new grants totalling 317,500 options which were granted to certain employees (excluding officers) at exercise prices of $15.57 and $16.73, one-third of which vested immediately, one-third of which will vest on the first anniversary date of the grant, and one-third of which will vest on the second anniversary date of the grant. These options expire seven calendar years after their grant date.

The following tables summarize information about the outstanding options at December 31, 2007 and 2006:

	Number of options	Weighted average exercise price
Outstanding and exercisable, January 1, 2006	1,205,325	$ 12.02
Granted	3,410,900	14.74
Exercised	(276,317)	11.84
Expired	(294)	13.85
Outstanding and exercisable, December 31, 2006	4,339,614	14.17
Granted	317,500	15.72
Exercised	(564,399)	13.42
Expired	(136,706)	14.73
Outstanding and exercisable, December 31, 2007	**3,956,009**	**$ 14.12**

Exercise Price	Number outstanding at December 31, 2007	Options exercisable	Weighted average remaining life (years)
$10.56	334,020	334,020	1.9
$13.85	356,097	356,097	4.3
$14.74	2,965,892	1,828,925	5.9
$15.57	260,000	75,000	6.5
$16.73	40,000	13,333	6.8
$10.56 to $16.73	**3,956,009**	**2,607,376**	**5.5**

The fair value of each unit option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of the options granted during the year and the weighted average assumptions used in their determination are as follows:

	2007	2006
Annual distribution yield	**8.7%**	9.0%
Risk free interest rate	**4.5%**	3.8%
Expected life	**5 years**	5 years
Expected volatility	**30%**	20%
Weighted average fair value per option	**$ 1.89**	$ 0.74

The Fund expensed $1.2 million for the year ended December 31, 2007 which was recorded in contributed surplus (2006: $1.1 million).

A long term incentive plan was established in 2005. Under this unit- based compensation plan, awards of restricted units are made to qualifying employees and directors. The plan results in participants receiving cash compensation based on the value of underlying notional Trust Units granted under the plan. The units vest in equal amounts over a three year period and the cash payments are based on a trading value of the Trust Units plus notional accrued distributions and performance of the Fund. The details of the various grants are included in the following table:

	Total Grant	Outstanding at December 31, 2007	Vested at December 31, 2007
2005	55,844		27,963
2006	145,771	79,866	79,866
2007	**238,214**	**319,473**	**159,489**

Based on the ninety-day weighted average trading price of the Trust Units prior to December 31, 2007, the estimated intrinsic value of the restricted Trust Units vested to December 31, 2007 totaled $4.6 million (2006: $1.6 million). The Fund has recorded compensation expense of $4.6 million in 2007 (2006:$1.0 million) relating to vested awards.

Note 14. Earnings Per Trust Unit:

The following table summarizes the computation of net earnings per Trust Unit:

	2007	2006
Net earnings		
Numerator for basic earnings per Trust Unit	**$ 142,305**	$ 88,885
Numerator for diluted earnings per Trust Unit	**$ 145,542**	$ 88,885
Denominator:		
Weighted average denominator for basic Trust Units	**130,513**	122,094
Dilutive instruments:		
Debentures	**6,211**	
Employee options	**642**	283
Denominator for diluted earnings per Trust Unit	**137,366**	122,377
Basic earnings per Trust Unit	**$ 1.09**	$ 0.73
Diluted earnings per Trust Unit	**$ 1.06**	$ 0.73

Note 15. Change in Non-Cash Working Capital:

	2007	2006
Accounts receivable	**$ (11,231)**	$ (13,935)
Accounts payable and accrued liabilities	**22,074**	18,922
	$ 10,843	$ 4,987
Operations	**$ (2,709)**	$ (4,851)
Investments	**$ 13,552**	$ 9,838

Note 16. Financial Instruments:

Fair value of financial assets and liabilities

Financial instruments of the Fund consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders, long-term debt and convertible debentures. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

	2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Senior secured notes [1]	**$ 86,708**	**$ 93,659**	$ 92,681	$ 101,080
Senior unsecured notes [1]	**$ 450,000**	**$ 441,893**	$ 450,000	$ 462,784
Convertible debenture [2]	**$ 47,702**	**$ 67,770**	$ 76,812	$ 103,713

(1) *Fair values determined by discounting the future contractual cash flows under note agreements at discount rates which represent borrowing rates available to funds for loans with similar terms and conditions.*

(2) *Fair values determined based on available market information.*

Interest rate and power cost risk management

Effective January 1, 2007, the Fund adopted the new Canadian accounting standards relating to financial instruments, hedges and comprehensive income. At January 1, 2007, all of the derivative financial instruments in the Fund were designated as cash flow hedges. Unrealized gains and losses in the fair value of cash flow hedging instruments are recorded in other comprehensive income, net of tax, until recognized in earnings. The fair value of these cash flow hedges are recorded on the Balance Sheet as assets with changes in the fair value of cash flow hedges reflected in accumulated comprehensive income in Unitholders' equity with no impact on net earnings for the period. The Fund has an interest rate swap and a power swap hedge that are both designated as cash flow hedges.

These cash flow hedges are used to manage the potential increase or decrease in the price of non-transmission power charges and interest expense on floating rate debt instruments.

At December 31, 2007, the Fund was exposed to changes in interest rates on $265 million of bank borrowings. The Fund has fixed the interest rate on $60 million of bank borrowings through interest rate swaps (see note 7). The interest rate swap had a fair value of $0.02 million as at December 31, 2007. The Fund is also exposed to changes in the cost of power. At December 31, 2007 the Fund has fixed the price on non-transmission power charges by way of price swap contracts which expire in 2010. The fair value of these contracts at December 31, 2007 was an unrealized gain of $10.8 million (2006: $7.6 million).

Credit risk

A major portion of the accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Fund has historically collected its accounts receivable in full. The Fund has the ability to exercise lien rights on oil and natural gas liquids which are in custody of the Fund during the transportation of such product on the pipelines.

The Fund is exposed to credit risk from counter parties on its interest rate and power cost swaps. The Fund minimizes credit risk by entering into risk management transactions only with entities that have investment grade credit ratings.

Note 17. Commitments:

The Fund is committed to annual payments as follows:

		Payments Due By Period			
Contractual Obligations	**Total**	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and vehicle leases	**11,534**	2,880	4,213	3,344	1,097

The Fund has entered into pipeline agreements that will require future capital expenditures. The remaining cost of construction of additional pipelines to provide the contracted transportation capacity is estimated to cost $135 million.

Consolidated Balance Sheets

Years ended December 31, 2007, 2006, 2005, 2004, and 2003
(in thousands of dollars)

	2007	2006	2005	2004	2003
Assets					
Current assets:					
Cash and term deposits	$ **16,736**	$ 1,861	$	$	$ 3,266
Accounts receivable	**56,177**	44,947	31,012	26,432	33,718
	72,913	46,808	31,012	26,432	36,984
Property, plant and equipment	**1,524,887**	1,257,729	1,161,691	1,160,613	1,183,437
Goodwill and other	**358,212**	371,667	366,416	361,855	362,428
Derivative financial instruments	**10,796**				
	$ **1,966,808**	$ 1,676,204	$ 1,559,119	$ 1,548,900	$ 1,582,849
Liabilities and Unitholders' Equity					
Current liabilities:					
Bank indebtedness	$	$	$ 7,311	$ 2,971	$
Accounts payable and accrued liabilities	**59,485**	37,411	18,489	12,792	23,017
Distributions payable to Unitholders	**15,905**	12,622	9,966	9,007	8,642
Current portion of long-term debt	**6,422**	5,973	7,968	3,522	134,000
Current portion of convertible debentures		15,133	8,000		
	81,812	71,139	51,734	28,292	165,659
Long-term debt	**772,364**	547,396	456,094	430,866	282,111
Convertible debentures	**47,702**	61,679	150,040	251,663	264,653
Asset retirement obligations	**62,236**	29,889	19,716	15,729	14,777
Future income taxes	**93,957**	113,617	137,923	167,300	200,600
	1,058,071	823,720	815,507	893,850	927,800
Unitholders' equity					
Trust Units	**1,320,692**	1,235,809	1,073,537	941,902	896,132
Deficit	**(419,890)**	(383,325)	(329,925)	(286,852)	(241,083)
Accumulated other comprehensive income-cash flow hedges	**7,935**				
	908,737	852,484	743,612	655,050	655,049
	$ **1,966,808**	$ 1,676,204	$ 1,559,119	$ 1,548,900	$ 1,582,849

Consolidated Statements of Earnings and Deficit

Years ended December 31, 2007, 2006, 2005, 2004, and 2003 (in thousands of dollars, except per Trust Unit amounts)	**2007**	2006	2005	2004	2003
Revenues:					
Conventional pipelines	**$ 249,056**	$ 222,957	$ 204,331	$ 201,734	$ 185,987
Oil sands infrastructure	**61,714**	62,120	55,472	54,104	44,548
Midstream business	**194,018**	55,801	30,719	23,285	12,638
	504,788	340,878	290,522	279,123	243,173
Expenses:					
Operations	**129,628**	120,605	102,736	105,028	96,151
Product purchases	**115,053**	5,060			
General and administrative	**30,643**	24,013	17,091	15,017	12,341
Management fee		1,027	1,165	1,076	1,024
Depreciation and amortization	**66,450**	85,619	85,270	83,695	76,997
Accretion on asset retirement obligations	**2,665**	1,395	1,015	952	988
Internalization of management contract	**4,700**	6,000			
Other	**1,639**				
	350,778	243,719	207,277	205,768	187,501
Earnings before interest and taxes	**154,010**	97,159	83,245	73,355	55,672
Interest on long-term debt	**(29,456)**	(24,880)	(23,877)	(24,131)	(20,291)
Interest on convertible debentures	**(4,769)**	(7,700)	(16,599)	(19,890)	(13,772)
Earnings before taxes	**119,785**	64,579	42,769	29,334	21,609
Income and capital taxes (reduction)	**(22,520)**	(24,306)	(27,640)	(31,089)	(26,346)
Net earnings	**142,305**	88,885	70,409	60,423	47,955
Deficit, beginning of year	**(383,325)**	(329,925)	(286,852)	(241,083)	(188,031)
Distributed cash	**(178,870)**	(142,285)	(113,482)	(106,192)	(101,007)
Deficit, end of year	**$ (419,890)**	$ (383,325)	$ (329,925)	$ (286,852)	$ (241,083)
Earnings per Trust Unit – basic	**$ 1.09**	$ 0.73	$ 0.65	$ 0.60	$ 0.50
Earnings per Trust Unit – diluted	**$ 1.06**	$ 0.73	$ 0.65	$ 0.60	$ 0.50

Consolidated Statements of Cash Flows

Years ended December 31, 2007, 2006, 2005, 2004, and 2003 (in thousands of dollars)	**2007**	2006	2005	2004	2003
Cash provided by (used in):					
Operating activities:					
Net earnings	**$ 142,305**	$ 88,885	$ 70,409	$ 60,423	$ 47,955
Items not involving cash:					
Depreciation and amortization	**66,450**	85,619	85,270	83,695	76,997
Accretion on asset retirement obligations	**2,665**	1,395	1,015	952	988
Future income tax reduction	**(22,520)**	(24,306)	(29,377)	(33,300)	(28,500)
Employee future benefits expense	**4,777**	4,620	3,383	3,609	3,165
Trust Unit based compensation expense	**1,232**	1,135			
Other	**1,099**	363	362	584	408
Employee future benefits contributions	**(3,759)**	(9,000)	(13,349)	(4,436)	(4,700)
Changes in non-cash working capital	**(2,709)**	(4,851)	(5,353)	6,054	(5,465)
Cash flow from operations	**189,540**	143,860	112,360	117,581	90,848
Financing activities:					
Bank borrowings	**239,113**	59,862	31,438	18,277	112,018
Issue of unsecured senior notes, net of issue costs		194,842		247,125	
Repayment of long-term debt		(165,000)		(250,000)	(22,166)
Repayment of senior secured notes	**(5,973)**	(5,555)	(1,764)		
Issue of convertible debentures					210,602
Issue of Trust Units on exercise of options	**7,372**	3,271	6,762	3,030	6,508
Issue of Trust Units under Distribution Reinvestment Plan	**47,170**	76,639	31,250	29,750	27,788
Distributions to Unitholders:					
– current year	**(162,965)**	(129,664)	(103,516)	(97,185)	(92,365)
– prior year	**(12,622)**	(9,966)	(9,007)	(8,642)	(8,189)
	112,095	24,429	(44,837)	(57,645)	234,196
Investing activities:					
Acquisition of storage facility					(188,436)
Capital expenditures	**(300,312)**	(168,955)	(79,457)	(58,007)	(139,795)
Changes in non-cash working capital	**13,552**	9,838	7,594	(8,166)	2,194
	(286,760)	(159,117)	(71,863)	(66,173)	(326,037)
Change in cash	**14,875**	9,172	(4,340)	(6,237)	(993)
Cash (bank indebtedness), beginning of year	**1,861**	(7,311)	(2,971)	3,266	4,259
Cash (bank indebtedness), end of year	**$ 16,736**	$ 1,861	$ (7,311)	$ (2,971)	$ 3,266

Five Year Operating Statistics

Years ended December 31, 2007, 2006, 2005, 2004, and 2003	**2007**	2006	2005	2004	2003
Average annual throughput *(in thousands of barrels per day)*					
Alberta					
Conventional crude oil	**242.7**	235.1	213.5	213.6	227.5
Condensate	**49.4**	50.3	53.2	54.0	52.4
Natural gas liquids	**130.6**	140.4	144.9	141.9	153.7
Total Alberta pipeline systems	**422.7**	425.8	411.6	409.5	433.6
British Columbia (BC) [1]					
Conventional crude oil	**24.4**	22.7	23.8	25.5	27.5
Oil sands pipeline [2]					
Synthetic crude oil	**525.0**	389.0	389.0	303.7	275.0
Total Pembina					
Conventional crude oil	**267.1**	257.8	237.3	239.1	255.0
Synthetic crude oil [2]	**525.0**	389.0	389.0	303.7	275.0
Condensate	**49.4**	50.3	53.2	54.0	52.4
Natural gas liquids	**130.6**	140.4	144.9	141.9	153.7
Total average throughput	**972.1**	837.5	824.4	738.7	736.1
Throughput composition *(% of total)*					
Conventional crude oil	**27.5%**	30.8%	28.8%	32.4%	34.6%
Synthetic crude oil [2]	**54.0%**	46.4%	47.2%	41.1%	37.4%
Condensate and natural gas liquids	**18.5%**	22.8%	24.0%	26.5%	28.0%
Pipeline revenue *(in millions of dollars)*					
Alberta	**$ 216.4**	$ 195.2	$ 179.0	$ 173.4	$ 162.1
BC	**32.7**	27.8	25.3	28.3	23.9
Oil sands	**61.7**	62.1	55.5	54.1	44.5
Pipeline revenue	**310.8**	285.1	259.8	255.8	230.5
Midstream revenue	**79.0**	50.7	30.7	23.3	12.6
Total revenue	**$ 389.8**	$ 335.8	$ 290.5	$ 279.1	$ 243.1
Average revenue *(dollars per barrel) (excluding oil sands and midstream results)*	**$ 1.43**	$ 1.27	$ 1.20	$ 1.18	$ 1.01

[1] *BC volume is Western system throughput only.*

[2] *Oil sands pipelines results are shown as contracted capacity as revenue is independent of throughput. Actual throughputs were 310.8 mbbls/d for 2007, 263.5 mbbls/d for 2006, 218.7 mbbls/d for 2005, 243.6 mbbls/d for 2004 and 217.6 mbbls/d for 2003.*

Quarterly Financial Statistics

(in thousands, except per Trust Unit amounts)	2007 1st Quarter	2007 2nd Quarter	2007 3rd Quarter	2007 4th Quarter	**Year ended Dec. 31/07**	Year ended Dec. 31/06
Operating revenue	$ 96,359	$ 93,426	$ 98,716	$ 101,234	**$ 389,735**	$ 335,818
Operating expense	31,192	30,718	31,833	35,885	**129,628**	120,605
General and administrative	6,721	7,875	7,407	8,640	**30,643**	24,013
Management fee						1,027
Depreciation and amortization [2]	16,006	16,458	16,877	17,109	**66,450**	85,619
Accretion on asset retirement obligations	408	594	759	904	**2,665**	1,395
Internalization of management contract	558	781	1,219	2,142	**4,700**	6,000
Other	1,617	376	(403)	49	**1,639**	
Earnings before interest and taxes [2]	39,857	36,624	41,024	36,505	**154,010**	97,159
Interest on long term debt	7,181	7,134	7,688	7,453	**29,456**	24,880
Interest on convertible debentures	1,425	1,378	1,016	950	**4,769**	7,700
Future income tax reduction and capital taxes	(2,678)	(7,380)	(5,583)	(6,879)	**(22,520)**	(24,306)
Net earnings	33,929	35,492	37,903	34,981	**142,305**	88,885
Add/(Deduct):						
Depreciation and amortization	16,006	16,458	16,877	17,109	**66,450**	85,619
Accretion on asset retirement obligations	408	594	759	904	**2,665**	1,395
Future income tax reduction	(2,678)	(7,380)	(5,583)	(6,879)	**(22,520)**	(24,306)
Maintenance capital expenditures						(3,414)
(Increase) decrease in distribution reserve	(5,567)	(2,274)	(3,758)	1,569	**(10,030)**	(5,894)
Distributed cash [1]	$ 42,098	$ 42,890	$ 46,198	$ 47,684	**$ 178,870**	$ 142,285
Trust Units outstanding *(weighted average in thousands)*	127,568	129,966	131,994	132,454	**130,513**	122,094
Distributed cash per Trust Unit	$ 0.33	$ 0.33	$ 0.35	$ 0.36	**$ 1.37000**	$ 1.16500
– taxable "income from a trust"	$ 0.28429	$ 0.28429	$ 0.30153	$ 0.31014	**$ 1.18026**	$ 0.89430
– non-taxable "capital distribution from a trust"	$ 0.04571	$ 0.04571	$ 0.04847	$ 0.04986	**$ 0.18974**	$ 0.27070

[1] *Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.*

[2] *Depreciation and amortization in previous quarters has changed due to refinements to revised estimated lives of depreciable assets effective January 1, 2007.*

Quarterly Segmented Information

(in millions)	2007 1st Quarter	2007 2nd Quarter	2007 3rd Quarter	2007 4th Quarter	**Year ended Dec. 31/07**	Year ended Dec. 31/06
Operating revenue						
Conventional pipelines	$ 62.0	$ 60.2	$ 60.9	$ 66.0	**$ 249.1**	$ 223.0
Oil sands infrastructure	14.5	15.4	17.1	14.7	**61.7**	62.1
Midstream business	19.9	17.8	20.7	20.6	**79.0**	50.7
Total	$ 96.4	$ 93.4	$ 98.7	$ 101.3	**$ 389.8**	$ 335.8
Operating expense						
Conventional pipelines	$ 24.1	$ 22.8	$ 22.5	$ 27.9	**$ 97.3**	$ 89.9
Oil sands infrastructure	5.0	5.5	7.3	5.9	**23.7**	24.8
Midstream business	2.1	2.4	2.0	2.1	**8.6**	4.3
Total	$ 31.2	$ 30.7	$ 31.8	$ 35.9	**$ 129.6**	$ 119.0
Net operating income						
Conventional pipelines	$ 37.9	$ 37.4	$ 38.4	$ 38.1	**$ 151.8**	$ 133.1
Oil sands infrastructure	9.5	9.9	9.8	8.8	**38.0**	37.3
Midstream business	17.8	15.4	18.7	18.5	**70.4**	46.4
Total	$ 65.2	$ 62.7	$ 66.9	$ 65.4	**$ 260.2**	$ 216.8

Quarterly Operating Statistics

	2007					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	**Year ended Dec. 31/07**	Year ended Dec. 31/06
Pipeline throughput – by pipeline system *(thousands of barrels per day)*						
Alberta	433.3	421.1	411.3	425.4	**422.7**	425.8
BC	26.2	22.7	24.1	24.7	**24.4**	22.7
Oil sands (1)	525.0	525.0	525.0	525.0	**525.0**	389.0
Total pipeline throughput	984.5	968.8	960.4	975.1	**972.1**	837.5
Average revenue *($ per barrel)*	1.07	1.12	1.04	1.10	**1.08**	1.05
Revenue *($ per barrel) (excluding midstream revenue)*						
Alberta	1.38	1.39	1.39	1.44	**1.40**	1.26
BC	1.57	1.41	1.69	1.96	**1.66**	1.38
Oil sands (1)	0.53	0.63	0.52	0.50	**0.54**	0.65
System-wide average	1.07	1.12	1.04	1.10	**1.08**	1.05
System-wide average *(excluding Oil Sands)*	1.40	1.40	1.43	1.50	**1.43**	1.27
Operating expense *($ per barrel)*						
Alberta	0.49	0.49	0.49	0.59	**0.52**	0.46
BC	0.94	0.85	0.82	0.93	**0.89**	0.88
Oil sands (1)	0.18	0.23	0.22	0.20	**0.21**	0.26

(1) *Results for oil sands pipelines show contracted capacity rather than actual throughput. Revenue per barrel and operating expense per barrel calculations are based on actual throughputs of 301.8 mbbls/d for Q1 2007, 268.2 mbbls/d for Q2 2007, 354.4 mbbls/d for Q3 2007, 318.1 mbbls/d for Q4 2007, 310.8 mbbls/d for 2007, and 263.5 mbbls/d for 2006.*

Trust Unit Trading Activity [1]

(in millions)	2007 1st Quarter	2007 2nd Quarter	2007 3rd Quarter	2007 4th Quarter
Unit trading price – high	$ 17.40	$ 17.14	$ 17.74	$ 17.99
– low	$ 13.36	$ 15.03	$ 15.67	$ 16.10
– close	$ 15.86	$ 15.96	$ 17.73	$ 17.54
Volume traded *(number of Trust Units)*	15,456,907	14,298,773	12,306,736	11,691,722
Value traded *(dollars)*	248,168,853	229,125,332	204,911,145	201,557,073
Trust Units outstanding *(end of period)*	128,246,780	131,388,042	132,065,211	132,541,536
Trust Units outstanding *(weighted average)*	127,567,669	129,966,492	131,994,265	132,453,683

Historical Unitholder Distributions and Tax Treatment [2]

($ per Trust Unit)	**2007**	2006	2005	2004
Total annual distribution declared *($ per Trust Unit)*	**1.370000**	1.165000	1.050000	1.050000
Taxable "other income"	**1.180260**	0.894341	0.888480	1.037880
Non-taxable "return of capital"	**0.189740**	0.270658	0.161520	0.012120
Cost base – beginning of period	**8.441618**	8.712276	8.873796	8.885916
Less: return of capital	**0.189740**	0.270658	0.161520	0.012120
Cost base – end of period	**8.251878**	8.441618	8.712276	8.873796

[1] *Pembina Pipeline Income Fund Trust Units trade on the Toronto Stock Exchange under the symbol PIF.UN.*

[2] *Cost base for units held from inception (October 1997).*

Year ended Dec. 31/07	Year ended Dec. 31/06
$ 17.99	$ 18.58
$ 15.03	$ 12.88
$ 17.54	$ 15.83
53,754,138	64,731,227
883,762,403	1,062,344,325
132,541,536	126,217,888
130,513,020	122,094,123

2003	2002	2001	2000	1999	1998	1997
1.050000	1.050000	1.050000	0.960000	0.950000	0.950000	0.140000
0.970680	0.893160	0.900768	0.770208	0.783000	0.618900	0.099200
0.079320	0.156840	0.149232	0.189792	0.167000	0.331100	0.040800
8.965236	9.122076	9.271308	9.461100	9.628100	9.959200	10.000000
0.079320	0.156840	0.149232	0.189792	0.167000	0.331100	0.040800
8.885916	8.965236	9.122076	9.271308	9.461100	9.628100	9.959200

Key Personnel

SENIOR MANAGEMENT TEAM

Robert B. Michaleski
President and Chief Executive Officer

Michael H. Dilger
Vice President, Business Development

S. Bruce Harris
Vice President, Operations

Glenys E. Hermanutz
Vice President, Corporate Affairs

Peter D. Robertson
Vice President and Chief Financial Officer

D. James Watkinson
Vice President, General Counsel and Secretary

BOARD OF DIRECTORS

Lorne B. Gordon (4)
Chairman
Calgary, Alberta
Corporate Director

David. A Bissett (2)(3)
Calgary, Alberta
Corporate Director

Allan L. Edgeworth (1)(3)(4)
Calgary, Alberta
Corporate Director

Randall J. Findlay (2)
Calgary, Alberta
Corporate Director

Myron F. Kanik (2)(4)
Calgary, Alberta
Corporate Director

David N. Kitchen (3)(1)
Calgary, Alberta
Corporate Director

Robert B. Michaleski
Calgary, Alberta
President and Chief Executive Officer
Pembina Pipeline Corporation

Robert F. Taylor (1)(4)
Calgary, Alberta
Corporate Director

(1) *Audit Committee Members*
(2) *Human Resources and Compensation Committee Members*
(3) *Health, Safety and Environment Committee Members*
(4) *Governance Committee*

Corporate Information

HEAD OFFICE

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Suite 2000, 700 – 9th Avenue S.W.
P.O. Box 1948
Calgary, Alberta T2P 2M7

AUDITORS

KPMG LLP
Chartered Accountant
Calgary, Alberta

TRUSTEE AND REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
Suite 600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Shareholder Communications
1-800-564-6253

STOCK EXCHANGE

Pembina Pipeline Income Fund
Trust Units are listed on the Toronto Stock Exchange under the symbol PIF.UN

7.35% Convertible Debentures
Symbol: PIF.DB.B

CREDIT AGENCY RATING

Pembina Pipeline Income Fund
DBRS Stability Rating STA-2 (low)
S&P Stability rating SR-2

Pembina Pipeline Corporation
DBRS senior secured debt rating 'BBB high'
DBRS senior unsecured debt rating 'BBB'
S&P's credit profile rating 'BBB'
S&P's senior secured debt rating 'BBB plus'
S&P's senor unsecured debt rating 'BBB'

INVESTOR INQUIRIES CONTACT

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Fax	(403) 237-0254
Toll Free	(403) 1-888-428-3222
Email	investor-relations@pembina.com
Website	www.pembina.com

The following documents are available at Pembina's website:

- Annual and Quarterly Reports
- Unit Trading Information
- Tax Information
- Press Releases
- Investor Presentations
- Distribution Information

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN(1)

Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to eligible Unitholders of the Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to eligible Unitholders of the Pembina Pipeline Income Fund.

The Plan allows participants an opportunity to:

- Reinvest distribution into Trust Units at a five percent discount to a weighted average market price, under the distribution reinvestment component of the Plan; or,
- Realize two percent more cash on their distributions, under the premium distribution component of the Plan
- Eligible Unitholders may also make optional Trust Unit purchases at the weighted average market price.

A brochure, detailing administration of the Plan and eligibility and enrollment information, is available on-line on Pembina's website located at **www.pembina.com**, or call **1-888-428-3222** to receive a copy by mail. Unitholders wishing to enroll in the Plan are asked to contact their broker.

(1) *As of June 30, 2007, Pembina has prorated its DRIP to zero as it prefers not to raise further equity under this plan at this time.*

ABBREVIATIONS

mbbls/d	thousands of barrels per day
NGL	natural gas liquids
$/bbl	dollars per barrel of pipeline throughput
cents/bbl	cents per barrel of pipeline throughput

TSX
LISTED

PIF.UN
SYMBOL

PEMBINA PIPELINE INCOME FUND

www.pembina.com